Alberta Legislature

Annual Report
# of the
Auditor General
1989-90

Sessional Paper 135/91

3 Session, 22 Legislature

ISSN 0228-314X

91-03348/

Alberta Legislature
Office of the Auditor General

Mr. R.J. Bogle, MLA
Chairman
Standing Committee on
Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1990, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
February 5, 1991

TABLE OF CONTENTS

SECTION **PAGE**

1 INTRODUCTORY COMMENTS 1

2 AUDIT COVERAGE, OBSERVATIONS AND RECOMMENDATIONS

LEGISLATIVE ASSEMBLY 5
TREASURY 6
ADVANCED EDUCATION 26
AGRICULTURE 43
ATTORNEY GENERAL 47
CAREER DEVELOPMENT AND EMPLOYMENT 49
CONSUMER AND CORPORATE AFFAIRS 50
CULTURE AND MULTICULTURALISM 51
ECONOMIC DEVELOPMENT AND TRADE 53
EDUCATION 54
ENERGY 55
ENVIRONMENT 60
EXECUTIVE COUNCIL 64
FAMILY AND SOCIAL SERVICES 69
FEDERAL AND INTERGOVERNMENTAL AFFAIRS 79
FORESTRY, LANDS AND WILDLIFE 80
HEALTH 82
LABOUR 96
MUNICIPAL AFFAIRS 97
PUBLIC WORKS, SUPPLY AND SERVICES 102

TABLE OF CONTENTS

SECTION **PAGE**

2 RECREATION AND PARKS 103
SOLICITOR GENERAL 105
TECHNOLOGY, RESEARCH AND TELECOMMUNICATIONS 106
TOURISM 110
TRANSPORTATION AND UTILITIES 111
IRRIGATION DISTRICTS 115
SECTION 12(b) AUDITS 116

3 REPORTING PROCESS, RESERVATIONS AND PUBLIC ACCOUNTS

REPORTING PROCESS 117
RESERVATIONS IN AUDIT REPORTS ON FINANCIAL STATEMENTS 118
AUDIT OF THE PUBLIC ACCOUNTS 119
CONSOLIDATION METHODS 120
CONSOLIDATED OPERATING STATISTICS 122

4 THE AUDIT OFFICE

LEGISLATIVE MANDATE 133
MISSION 136
ACCOUNTING PRINCIPLES, AUDITING STANDARDS, AND AUDIT APPROACH 137
ORGANIZATION OF THE AUDIT OFFICE 139

INDEX OF ENTITIES 141
AUDITOR GENERAL ACT

Auditor General of Alberta

Report for the year ended March 31, 1990

This report is issued pursuant to section 19 of the Auditor General Act. It is my fifth annual report to the Legislative Assembly and the twelfth such report issued by the Auditor General of Alberta.

The report is for the year ended March 31, 1990. Nevertheless, some of the observations and recommendations it contains resulted from audit work carried out since that date.

Auditor General Act

The Auditor General Act sets out the matters that I must and can report. Most are shortcomings or irregularities such as systems weaknesses, control deficiencies, non-compliance with legislation, and inadequate accounting and reporting practices. In other words, the Act requires my report to concentrate on areas and matters where I think improvements can be made.

Summary conclusion

The scope and extent of audit work completed for 1989-90 is outlined in section 2 of this report.

For every financial statement audited, I have issued an Auditor's Report.

For the financial and management control systems and procedures examined, apart from the observations reported in section 2 of this report I am satisfied that they contribute to the sound financial administration of the Province.

For those transactions and activities examined, apart from the instances of non-compliance described in this report, I am satisfied that they complied, in all significant respects, with relevant legislative authorities. The instances of non-compliance reported herein should not be used as a basis for drawing conclusions as to compliance or non-compliance with respect to matters not examined.

I am pleased with the action taken by management in response to many of my previous recommendations. However, the observations reported in section 2 of this report indicate that there is scope for further improvement in the financial administration of the Province.

Subsidiary company accountability

The financial control, audit and accountability of subsidiaries of Provincial corporations was a major concern reported in my previous annual report (page 54).

My concern was that accountability to the Legislative Assembly would suffer because a particular Provincial corporation had transferred part of its operations to a subsidiary. The Corporation considered the subsidiary to be outside the mandate of the Auditor General.

I believe that in 1978 the Legislative Assembly gave the Auditor General a mandate to audit the entire economic unit administered by each Provincial corporation. However, the Auditor General Act does not state expressly that I am the auditor of wholly-owned subsidiary corporations. When the Act was originally passed, there had been no need to consider the aspect of subsidiary companies.

In the 1988-89 annual report, I stated that i had requested the Standing Committee on Legislative Offices to consider whether it was necessary for legislation to state clearly that the Auditor General is auditor of all wholly-owned subsidiaries of Provincial corporations.

On December 14, 1989, the Standing Committee unanimously passed a resolution which recommended to the Provincial Treasurer that the Auditor General Act and the Financial Administration Act be amended to provide for the audit of subsidiaries of provincial corporations by the Auditor General of Alberta.

The Provincial Treasurer agreed with the Standing Committee and on May 30, 1990 the Financial Administration Act was amended to extend the definition of a Provincial agency to include subsidiaries of Provincial corporations. In this manner, it was not necessary to amend the Auditor General Act as I am the auditor of every Provincial agency.

It was most gratifying to have my concern dealt with promptly.

I have now considered the reporting implications of this new legislation. I believe the Legislative Assembly has confirmed that it wishes subsidiaries of Provincial corporations to be at least as accountable to it as the parent corporations. Much of this accountability comes from the Public Accounts and other financial statements which are tabled in the Legislative Assembly, and through the audit and reporting responsibilities of the Auditor General.

I believe that the Legislative Assembly should receive information on the activities of subsidiaries in one of three ways.

Generally, the most meaningful way for a Provincial corporation to convey the financial results of the corporation and its subsidiary is to prepare consolidated financial statements.

Sometimes, however, a subsidiary's financial statement components may be so dissimilar to those of the parent corporation that it is acceptable to disclose information on the subsidiary only in notes to the parent corporation's financial statements. The information in the notes should be comprehensive. The results of operations and financial position should be provided, albeit in a condensed fashion.

If a Provincial corporation prefers not to disclose the information in its financial statements, I believe that it would be appropriate for the Provincial corporation to have the financial statements of the subsidiary tabled in the Legislative Assembly in the same way that its own financial statements are tabled.

Crown-controlled organization accountability

Another matter which I believe needs to be reviewed is the accountability of Crown-controlled organizations. In particular, a more appropriate method of disclosure of their financial statements requires consideration.

Crown-controlled organizations are not referred to in the Financial Administration Act and their financial statements are not included in the Public Accounts of the Province.

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act and include corporations, more than 50% but less than 100% of whose voting shares are owned by the Crown.

Such organizations operating during 1989-90 were:

Gainers Inc.
Northern Steel Inc.
North West Trust Company
354713 Alberta Ltd.

I am not the auditor of these organizations.

My mandate to report on Crown-controlled organizations is contained in section 19 of the Auditor General Act. Section 19(3) permits me to comment on any matter contained in the financial statements of a Crown-controlled organization in the same way that I am permitted to comment on the financial statements of a Provincial agency. The same section also permits me to include in my annual report, the financial statements of organizations on which I am reporting.

In the case of Provincial agencies' accountability, I am commenting on financial statements in the Public Accounts or financial statements that have been tabled in the Legislative Assembly. For a Crown-controlled organization such as North West Trust Company, I would be commenting on financial statements made public through distribution to all shareholders. However, with respect to other Crown-controlled organizations, I could be commenting in my annual report on financial statements that had not been made public.

Although my Act permits me to include in my annual report financial statements that have not been made public, I would do this only if the matters reported in the financial statements were considered to be significant, and if it were not possible to achieve a more appropriate method of disclosure. I believe that it is properly the responsibility of management to make its financial statements available and be accountable for its use of public resources.

Accordingly, through this report, I am making the following recommendation:

> It is recommended that the Public Accounts Committee consider the question of Crown-controlled organizations and consult with the Provincial Treasurer with a view to making a recommendation to the Legislative Assembly on any necessary legislative amendments to achieve appropriate accountability, including the disclosure of financial statements.

The observations on Crown-controlled organizations that I have made are contained on page 14 of this report.

Section 2

Section 2 of the report describes the work of my Office. It outlines the audit work undertaken for 1989-90 on the legislative offices and each government department and agency. It contains the more significant audit observations and recommendations that were reported to management as a result of that work. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

The recommendations that I consider are most significant and which particularly warrant the attention of the Legislative Assembly are numbered and shown on a shaded background.

The action taken in response to these recommendations will be reviewed during next year's audits.

Section 3

Section 3 of the report describes the reporting process, contains a summary of the audit report reservations issued for 1989-90, and discusses the audit of the Public Accounts. The section has a brief commentary on the Province's consolidation methods, and includes consolidated operating statistics.

Section 4

Section 4 presents my legislative mandate and the mission of the Audit Office. It includes an explanation of accounting principles, auditing standards and the Office's audit approach. Finally, the organization of the Audit Office is described.

Acknowledgements

Pursuant to section 19(1)(b) of the Auditor General Act, I am pleased to report that in carrying out the work of my Office, I received all the information, reports and explanations that were required.

I am pleased to acknowledge with gratitude the excellent co-operation extended to my staff by management of departments and agencies, and other organizations audited.

Furthermore, I wish to acknowledge the efforts of my staff. Their contributions have culminated in the completion of this annual report.

Donald D. Salmon
FCA
Auditor General

Edmonton, Alberta
January 15, 1991

Legislative Offices
year ended March 31, 1990

Financial audits of the following were completed for the year ended March 31, 1990:

Legislative Assembly Office
Office of the Chief Electoral Officer
Office of the Ombudsman

Of the matters reported to management at the conclusion of these audits, none were selected for inclusion in this report.

The financial statement of the **Office of the Auditor General** for the year ended March 31, 1990, was audited by a firm of Chartered Accountants appointed by the Standing Committee on Legislative Offices. The financial statement is published in section 8 of the Public Accounts of the Province.

Consolidated Financial Statements of the Province

year ended March 31, 1990

The Province's 1989-90 consolidated financial statements are published in the Public Accounts. The notes to the consolidated financial statements explain the accounting policies and reporting practices employed in preparing them. Page 120 of this report contains commentary on the consolidation methods used, together with selected consolidated operating statistics.

I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1990. My report thereon is reproduced on page 119 of this report.

Most of the figures that make up the Province's consolidated statements are audited during the annual audits of the various departments, funds and agencies that are consolidated. Observations and recommendations arising from those audits are reported in this section of the report.

General Revenue Fund

year ended March 31, 1990

The financial statements of the General Revenue Fund report the revenues and expenditures of the twenty-four government departments and the Legislative Assembly, including its three Legislative Officers, together with the financial assets and liabilities they administer.

Audit activities undertaken for each department and Legislative Office are reported on pages 5 to 114.

Pension liabilities

The Province continues to exclude from the reported net debt the full liability for pension obligations.

These obligations arise from six major pension plans administered by the Province, and a plan operated under the Teachers' Retirement Fund Act which is guaranteed by the Province.

In my 1988-89 annual report (page 3), I recommended that the Provincial Treasurer again consider reflecting as a liability in the financial statements of the Province the unrecorded liability arising from the various pension plans administered and/or guaranteed by the Province.

When responding to this recommendation, the government stated that its current practice of disclosing pension obligations by way of a note to the financial statements provides adequate information about the obligations. As I have previously stated, however, information in notes to financial statements "should not be used as a substitute for proper accounting treatment." This quotation is taken from a recommendation of the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants. It appears in Public Sector Accounting Statement -

General Standards of Financial Statement Presentation for Governments (November 1986).

The government also stated that it would be premature to implement the recommendation because the proposed accounting treatment has not been accepted by the other provinces and cannot be considered as generally accepted accounting principles for governments. While this is true at present, there are ongoing discussions among provincial finance ministers and provincial auditors on accounting for pension obligations, including the implementation of Public Sector Accounting Statement - Accounting for Employee Pension Obligations in Government Financial Statements (November 1988). This Statement contains recommendations on accounting for pension obligations and related information. It supports my recommendation that pension obligations should be reported as a liability in the financial statements. The government has undertaken to monitor other governments' accounting treatment for pension obligations.

There is also a lack of current information in the financial statements at March 1990 on the extent of the Province's unrecorded liability at that date and the impact on the Province's annual financial results. The most recent actuarial valuations of the pension obligations arising from the six major pension plans administered by the Province are as at March 1988. The total obligation amounting to $8,916 million determined from these valuations has been included in the notes to Consolidated and General Revenue Fund financial statements in the Public Accounts. However, these valuations become increasingly out-of-date with the passage of time.

Although the Pension Plan Acts require the actuarial liabilities to be determined at least once every five years, they do not preclude such valuations from being made more frequently. In fact, the Public Sector Accounting Statement on pension obligations recommends that valuations be done at least once every three years. In the years between valuations, projections from the latest actuarial valuations could be used to provide more current information in the Public Accounts.

Given the magnitude of the obligations, I believe it would be useful to provide more up-to-date information.

I have obtained the actuary's estimates supplied with the 1988 actuarial valuations projecting the total obligation of $8,916 million forward in time to $10,900 million as at March 1990. Based on this projection, which uses the 1988 assumptions, the total obligation of the six major plans administered by the Province increased by approximately $2,000 million over two years. A combination of this projection, and the latest projection for the Teachers' Retirement Fund and the market value of the Pension Fund's net assets, produces the following estimate of unrecorded pension liabilities at March 31, 1990:

	(millions of dollars)
Actuary's projection of the total obligation of the six major plans at March 31, 1990	$10,900
Less: Market value of Pension Fund net assets at March 31, 1990	5,200
	5,700
Actuary's projection of the unfunded accrued pension liability of the Teachers' Retirement Fund at March 31, 1990	3,300
Estimated unrecorded pension liabilities at March 31, 1990	$ 9,000

In a management letter to the Deputy Provincial Treasurer, Management and Control, I again made the following recommendation:

> General Revenue Fund - Pension liabilities
>
> **Recommendation No. 1**
>
> It is recommended that the Provincial Treasurer include the unrecorded liability for pension obligations arising from the various pension plans administered and/or guaranteed by the Province as a liability in the General Revenue Fund financial statements.

Long-term disability costs

The Province does not include in the General Revenue Fund the liabilities of its long-term disability plans.

The liabilities of these plans, at any point in time, should include the current value of the future benefits that will be paid to disabled employees already receiving benefits.

Based on information received from the Department of Labour, the consulting actuary's estimate of the unrecorded liability for those employees already receiving benefits amounted to $57 million at March 31, 1990.

The full annual cost for disabled employees who are entitled to benefits was $23 million for 1989-90. However, only $10 million was recorded, being the amount paid to employees during the year. The unrecorded annual cost of $13 million is reflected in the increase in the unrecorded liability from $44 million at March 31, 1989, to $57 million at March 31, 1990.

In my 1988-89 annual report (page 7), I recommended that the Treasury Department record the liabilities of the long-term disability plans in the financial statements of the General Revenue Fund.

Because the General Revenue Fund financial statements still do not reflect these liabilities, I made the following recommendation in a management letter to the Deputy Provincial Treasurer, Management and Control:

> General Revenue Fund - Long-term disability costs
>
> **Recommendation No. 2**
>
> It is recommended that the Treasury Department record in the financial statements of the General Revenue Fund, the full costs and related liabilities of the long-term disability plans for employees already receiving benefits.

The above recommendation applies only to those employees already receiving benefits. The recommendation below deals with employees who may obtain benefits in the future. I have separated the issue into two parts in order to allow for more focussed and immediate attention to the accounting for the costs for employees already receiving benefits.

In addition to the full cost for disabled employees who are entitled to benefits, there is another cost for non-disabled employees who are entitled to benefits if a disability occurs. For that latter group, the annual cost arising from present service could be estimated based on past experience and likely future events. That estimation will probably require technical assistance from an actuary.

In a management letter to the Deputy Provincial Treasurer, Management and Control, it was again recommended that the Treasury Department formulate a policy for accounting for the long-term disability costs associated with employees who may obtain benefits in future.

Credit unions - unrecorded cost and liability

The total cost and liability arising from the Province's decision to support credit unions has not been reflected in the financial statements of the General Revenue Fund. At March 31, 1990, the minimum unrecorded liability of the Fund amounted to approximately $295 million.

The Province has entered into agreements to provide funds to Alberta credit unions. These agreements are described in part in a note to the General Revenue Fund financial statements for the year ended March 31, 1990. The note reads as follows:

> "The Province has agreed to indemnify and fund interest to the extent necessary on $335,000,000 of debentures issued by S C Financial Ltd. to credit unions in exchange for stabilization preferred shares of the credit unions. To March 31, 1990, the Province has paid $156,217,000 (1989 $111,869,000). These amounts were charged to expenditure - valuation adjustments."

This note reflects the Treasury Department's belief that the cost of providing assistance to credit unions should be booked at the time that the General Revenue Fund makes a payment, in other words, on a cash rather than an accrual basis. Therefore, the Department views the Province's support of the credit unions as an indemnity to be disclosed as a contingent liability.

The effect of accounting for the support of the credit unions on a cash basis is to defer the cost of the support. This treatment denies the economic reality that the benefit of the support has already passed to the credit unions.

The credit unions have received assets in the form of debentures which have been correctly reflected in the financial statements of the credit unions at a value of $335 million. On the other hand the major cost of the debentures is reflected by the Province as a contingent liability to be expensed when paid. Thus the cost of the decision to support the credit unions has been misstated.

The government entity, S C Financial Ltd., which is legally responsible for redeeming the debentures acquired by the credit unions, has investments in Government of Canada bond coupons and residuals. These investments, which at March 31, 1990, amounted to approximately $40 million are expected to grow in value by the year 2010 to $335 million when they will be used to repay that liability. Therefore, S C Financial Ltd. reflects only a portion of the liability, that portion being the current value of the principal to be repaid.

The liability to pay interest on the debentures until 2010 has not been recorded by S C Financial Ltd. since the General Revenue Fund is servicing and will continue to service the debt until redeemed. However, the General Revenue Fund does not reflect the liability either. Consequently, the Province continues to understate both the cost of its support and the corresponding liability to the credit unions.

In a management letter to the Deputy Provincial Treasurer, Management and Control, I made the following recommendation:

> General Revenue Fund - Credit unions, unrecorded cost and liability
>
> **Recommendation No. 3**
>
> It is recommended that the Treasury Department include in the General Revenue Fund's financial statements the total cost and liability arising from agreements to support credit unions.

Crown guarantees and indemnities

The government's increasing use of guarantees and indemnities without improved legislative control and appropriate accounting is cause for concern.

In the past five years, borrowings by non-government entities guaranteed by the government have increased fourfold from approximately $500 million to approximately $2,100 million at March 1990. There has been a corresponding increase in disclosed losses arising from the guarantees and indemnities given. Payments made on account of losses incurred by the Province have increased from $8 million five years ago to $115 million in 1989-90.

By giving a guarantee or an indemnity, the government protects a lender from loss arising from a borrower's default. If a loss arises it is paid from the General Revenue Fund. In this way, the government uses the assets of the Province as backing to facilitate commercial transactions which might not otherwise be possible.

Guarantees and indemnities are increasingly used as a method of achieving program objectives. For example, guarantees are given to support major government programs such as Farm Credit Stability, Small Business Term Assistance, and Student Loans. For these programs, the government has promised commercial banks that it will make good their loss if a farmer, a business man, or a student fails to pay interest or repay money borrowed.

Thus it is important to remember that for every guarantee given, there is a potential expenditure for the Province in the future.

In view of the significant increase in the use of guarantees, I have reviewed whether the government's accountability for the commitments it has made is adequately fulfilled. In my opinion, the financial administration of the Province could be improved by the government acting on the following recommendations for guarantees which deal with:

- recognizing losses,
- reporting losses, and
- disclosing the total authorized amount.

Recognizing losses in the period that they arise

The Province's annual losses arising from guarantees and indemnities are understated.

Under the present accounting practice, losses for guarantees are recorded on a cash basis. In other words, a loss is recorded when a payment is made, rather than when the event that caused the loss took place.

The disadvantage with using a cash basis when reporting losses is that it can mislead because it postpones recognizing facts. Further, management can control the timing of loss recognition by choosing when to settle an entity's liabilities.

The appropriate practice in this situation is to accrue losses. Under this process, the government would record a loss as an expenditure when a liability has been incurred and the amount of the loss can be reasonably estimated. This would mean acknowledging a loss as soon as a borrower's obligations under a guaranteed loan could not be met.

Earlier recognition of losses will involve some estimation of amounts by management. However, this already occurs in practice. For example, in the Government Estimates 1990-91, the government has budgeted $102 million as the estimated cash losses for "implemented guarantees and indemnities."

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, I made the following recommendation:

> General Revenue Fund - Crown guarantees and indemnities,
> Recognizing losses in the period that they arise
>
> **Recommendation No. 4**
>
> It is recommended that a loss be recorded when a liability arising from a guarantee or indemnity given by the government has been incurred, and the amount of the loss can be reasonably estimated.

Reporting losses as program costs of departments

In the Province's financial statements, the government does not disclose the departments that are responsible for losses arising from guarantees and indemnities.

Cash losses arising from guarantees and indemnities are included in the Statement of Budgetary Revenue and Expenditure as an expenditure described as 'valuation adjustments.'

The identity of a department which initiated the giving of a guarantee or indemnity is identified in section 8 of the Public Accounts. But a loss arising from a guarantee is not included with the department's expenditures in the Public Accounts. Including these losses with other departmental expenditures, rather than in 'valuation adjustments', would align the expenditure more closely with a department's programs and improve financial reporting.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, it was recommended that losses arising from guarantees or indemnities be recognized in the financial statements of the Province as expenditures of the departments which initiated the giving of the guarantees or indemnities.

Total authorized amount

The financial statements of the Province do not disclose the total amount of authorized guarantees and indemnities outstanding at the year end.

The extent of disclosure of the Province's exposure to loss is restricted to the amount of the guaranteed loans and debentures outstanding. Often, this amount is less than the total amount of the government's commitments because the full amount authorized has not yet been borrowed from the institutions which receive the guarantees.

By disclosing the total authorized amount of guarantees and indemnities in force at each year-end, the government would be improving information about its commitments and further exposure to loss.

In a management letter to the Deputy Provincial Treasurers at the conclusion of the audit, it was recommended that the total authorized amount for each guarantee and indemnity be disclosed in the financial statements of the Province.

Alberta Mortgage and Housing Corporation - deficit funding

At March 31, 1990, the accumulated deficit of the Corporation included expenditures that represented actual losses rather than loss provisions. It appears that the Treasury Department is only prepared to fund losses if they are cash losses.

Section 14 of the Alberta Mortgage and Housing Corporation Act states that "the operating deficit of the Corporation shall be paid from money voted by the Legislature" except that "the Provincial Treasurer may exclude from the operating deficit of the Corporation all or any part of an expenditure recorded in the accounts of the Corporation in respect of a provision for a decline in the value of assets held or owned by the Corporation."

The deficit included realized losses of $45 million incurred on the foreclosure of mortgages and losses of $142 million resulting from land write-downs. In my opinion, legislation requires these losses to be funded since it is only the funding of provisions that can be deferred. The question of whether a loss is an accrued loss or a cash loss is not relevant. However, since the future of the Corporation is under review and the losses referred to may shortly become cash losses, I am not making a recommendation at this time.

Crown obligation under the oil sands agreements

The Province's financial statements do not disclose the nature and extent of the Province's obligations under the Oil Sands Crown Agreements.

The Province has agreements with lessees who extract bitumen from Crown land. The agreements define the basis and method of calculating net profits or losses for the purpose of determining the Crown's synthetic oil royalty. Under the agreements, lessees can offset losses incurred in previous years against profits, thus decreasing the Province's royalty share. At March 31, 1990, net losses which may be offset against future synthetic oil royalties due to the Province amounted to $93.7 million.

The Province has also provided an incentive to certain lessees to enhance the potential returns from bitumen reserves. The incentive allows for immediate write off of certain capital costs in computing the Provincial synthetic oil royalties. As a result, at March 31, 1990, the Province had deferred to future years synthetic oil royalties amounting to $259.4 million.

The Province's financial statements do not indicate the impact of these arrangements on the current and future years' revenues. I believe that disclosure, by way of note, of the future effect of incentives already provided and losses already incurred would be of assistance to readers of the financial statements.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the end of the audit, it was recommended that the nature and extent of the Crown's obligations under the Oil Sands Agreements be disclosed in the General Revenue Fund financial statements.

Oil inventory

The Province's financial statements do not classify correctly royalty oil held by its agency, the Alberta Petroleum Marketing Commission.

The Crown's oil royalty is collected in the form of a share of production. Producers deliver royalty oil to the Commission through pipelines. The Commission, as agent of the Crown, sells this oil and remits the proceeds to the Provincial Treasurer. At March 31, 1990, the value of unsold Crown royalty oil in pipelines amounted to $90,170,000. The Province's financial statements have incorrectly described this amount as cash and marketable securities.

In a management letter to the Deputy Provincial Treasurer, Management and Control at the end of the audit, it was recommended that the royalty oil amount be disclosed as a separate line item in the General Revenue Fund Statement of Reported Assets, Liabilities and Net Debt.

Crown-Controlled Organizations

Crown-controlled organizations are defined by section 1(b) of the Auditor General Act. Those operating during 1989-90 were:

Gainers Inc.
Northern Steel Inc.
North West Trust Company
354713 Alberta Ltd.

I have commented on the accountability of Crown-controlled organizations in section 1 of this report.

The Province's control of Gainers Inc. arose from the security provided to the Province under a master agreement which it entered into with the parent of Gainers Inc. on September 25, 1987, to provide a term loan facility and loan guarantee on a promissory note. Certain conditions of the agreement were not met and the Province took control of Gainers Inc. on October 6, 1989.

The Province's control of Northern Steel Inc. arose on June 12, 1989 as a result of an agreement with the major shareholder of the company. Under that agreement, the Province provided further financial support to supplement a previous loan and two prior guarantees. The company had significant operating losses and as a result had defaulted on a loan and a lease guaranteed by the Province.

The Province's investment in North West Trust Company and 354713 Alberta Ltd. arose from a rehabilitation agreement concluded by the companies, the Province and the Canada Deposit Insurance Corporation, effective January 1, 1987. The agreement and investment provided North West Trust Company with an improved capital base and a framework to return it to viable operations. Under the arrangement, North West Trust Company has the right, subject to a maximum limit, to cause 354713 Alberta Ltd. to purchase, at book value, assets which are not providing a satisfactory return. These assets are to be managed, developed, marketed and sold in the normal course of business.

If the accounts of a Crown-controlled organization are audited by a person other than the Auditor General, then that person is obliged to comply with section 16 of the Auditor General Act and provide the Auditor General with certain information.

In accordance with section 16 of the Act, the firms that performed the audit of Gainers Inc. for the year ended September 30, 1989, the audits of Northern Steel Inc. and North West Trust Company for the year ended December 31, 1989, and the audit of 354713 Alberta Ltd. for the year ended March 31, 1990, delivered to the Auditor General copies of their reports to management and the audited financial statements. Also, the audit firms provided access to their working papers and full explanations of the extent of the audit work and the results obtained from that work.

The following matters have come to my attention during the reviews of the audit firms' working papers and warrant, in my opinion, the attention of the Legislative Assembly.

Gainers Inc.

The auditors' report contained a reservation of opinion on a $12 million asset called "Investment in and amounts due from former affiliates."

Specifically, the auditors stated that as a result of the change in ownership of the company on October 6, 1989, they were unable to obtain any financial information to support the carrying value of the investment in and amounts due from former affiliates. Accordingly, they were not able to determine whether any adjustments might be necessary to that carrying value and consequently to the financial statements.

The audited financial statements indicate that the company's ability to continue as a going concern is dependent on the Province providing financial support through a term loan and loan guarantees.

Northern Steel Inc.

The auditors' report contained a reservation of opinion on the inclusion in income in 1987 of a gain on a sale-leaseback transaction.

Specifically, the auditors stated that if generally accepted accounting principles had been applied the gain would have been deferred and amortized over the term of the lease. The impact on the 1989 year would have been to increase net income, increase the accumulated deficit and increase deferred revenue.

The audited financial statements indicate that the company's ability to continue as a going concern is dependent on the Province providing financial support through long-term debt, and loan and other guarantees.

354713 Alberta Ltd.

The audited financial statements indicate that the company's ability to continue as a going concern is dependent on the Province providing financial support through its equity participation and bank guarantee.

Monitoring Crown-controlled organizations

In my 1988-89 annual report (page 14), I recommended that the Treasury Department establish and document its objectives and procedures for monitoring the activities of each Crown-controlled organization.

When responding to this recommendation, the government stated that establishing formal review procedures to exercise the requisite degree of management control is not required for 354713 Alberta Ltd., because it is essentially involved in winding down activities. Its Board of Directors functions on the basis of a mandate provided by the Provincial Treasurer with respect to its overall objectives. In the case of the North West Trust Company, it has an independent Board of Directors elected at annual meetings of shareholders.

I acknowledge that Treasury Department management has informed my staff that the Department has identified and applies procedures to monitor the performance of the organizations, such as reviewing annual business plans, monitoring financial results quarterly and annually, and ongoing discussions with the organizations' management. However, a brief summary of procedures applied by the Department to monitor the performance of the organizations in relation to expectations could assist management to ensure that the monitoring activity is adequate.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, I made the following recommendation:

> Crown-Controlled Organizations - Monitoring
>
> **Recommendation No. 5**
>
> It is recommended that the Treasury Department document the procedures for monitoring the activities of each Crown-controlled organization.

Treasury Department
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the adequacy of legislative controls and financial statement disclosure for guarantees and indemnities. Recommendations arising from this work are made on pages 10 to 13 of this report.
- An examination of the system used by the Revenue Administration Division to administer the Alberta Farm Fuel Distribution Allowance program.

- An examination of the procedures to monitor and control changes to the payroll computer systems administered by the Payroll and Pensions Division.

- An examination of the procedures used by the Department to control payments made pursuant to the Province's settlement offer to holders of investment contracts issued by First Investors Corporation Ltd. and Associated Investors of Canada Ltd.

Disbursement Control Division

In my 1988-89 annual report (page 6), I recommended that the Disbursement Control Division of the Treasury Department establish the appropriate frequency for internal control compliance reviews of each entity that it monitors.

I am pleased to report that management has now established in its annual plan the appropriate frequency for reviews. Frequency is based on an analysis of materiality and control risk with respect to an entity's operations.

Corporate Tax Administration, planned audit coverage

In my 1988-89 annual report (page 7), I recommended that the Treasury Department's Corporate Tax Administration - Audit Division document clearly the rationale for its annual planning decisions on audit coverage.

I am pleased to report that the Audit Division has started to assess the risks involved as a preliminary step to documenting its rationale for its audit coverage. The progress of this initiative will be examined during the next audit.

Forward exchange contracts

In my 1988-89 annual report (page 8), I recommended that the Treasury Department discontinue the policy of reflecting, in year-end financial statements, the accounting effects of forward exchange contracts entered into after the year-end date. The Department has not yet changed its policy.

The Treasury Department feels that the use of forward contract rates established after the year end results in a more accurate picture of the Province's liabilities, since these rates are more certain.

My concern is that use of such rates results in financial statements which do not reflect the actual events that occurred up to the reporting date.

However, to date, no material misstatement has occurred in any of the Province's financial statements due to this policy.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, it was again recommended that the Treasury Department discontinue the policy of reflecting, in year-end financial statements, the accounting effects of forward exchange contracts entered into after the year-end date.

Debt limit

In determining compliance with the Province's debt limit, the inclusion of certain types of inter-fund borrowings in the calculation is questionable.

Section 65(1) of the Financial Administration Act sets a limit on the aggregate 'unredeemed Government securities' of the Province's General Revenue Fund and Capital Fund.

In previous years, surplus cash in the Capital Fund has been loaned to the General Revenue Fund through the issue of promissory notes. These notes are part of the unmatured debt of the General Revenue Fund. Such debt is included by the Treasury Department when testing for compliance with the debt limit.

During 1989-90, the General Revenue Fund and Capital Fund borrowings approached the then established limit of $7.5 billion. Proceeds of approximately $246 million from a 1989-90 Alberta Capital Bond issue were loaned from the Capital Fund to the General Revenue Fund. Unlike previous years, the loan was effected simply by recording a liability in the General Revenue Fund. The liability was excluded from the calculation of the debt limit. However, had the loan been effected by use of promissory notes, it would have been included and caused the limit to be exceeded.

It is not proper for transactions similar in substance to be treated differently because of their form. Furthermore, it is not clear why the Financial Administration Act should require inter-fund borrowings to be included in the calculation for compliance with the debt limit. The risks assumed by the Province in incurring debt should normally be limited to external debt only.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, it was recommended that the Treasury Department review the application of section 65(1) of the Financial Administration Act with respect to the debt limit.

Alberta Farm Fuel Distribution Allowance Program

The Revenue Administration Division does not have a system to identify individual farmers who may be receiving excessive benefits under the terms of the Alberta Farm Fuel Distribution Allowance Program.

Bulk fuel dealers are appointed as authorized agents to sell fuel to eligible farmers at a price reduced by Program discounts. In 1989-90 the Program cost amounted to approximately $134 million.

Agents submit monthly claims to the Treasury Department for reimbursement of discounts given and the Division produces a monthly report of payments made. However, the Division does not use available information to determine the amount of benefits provided to individual farmers under the Program.

This information would assist the Division's field auditors to focus their audit work on farmers who appeared to be receiving excessive benefits.

In my opinion, a cost-effective system could be developed to provide management with assurance that benefits to individual farmers are reasonable.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue at the conclusion of the audit, it was recommended that the Revenue Administration Division develop a system to produce a monthly report showing that farm fuel benefits provided to individual farmers are reasonable.

Alberta Heritage Savings Trust Fund

year ended March 31, 1990

Reservation of opinion

The Auditor's Report on the financial statements of the Heritage Fund for the year ended March 31, 1990, contained a reservation of opinion as follows:

> "The practice of including deemed assets and deemed equity represented by deemed assets on the balance sheet is not appropriate nor is the presentation in accordance with generally accepted accounting principles. Deemed assets represent amounts expended which are not recoverable by the Fund and where assets do exist, they belong to other organizations. Although it has been interpreted by management that the Alberta Heritage Savings Trust Fund Act requires the disclosure of deemed assets on the balance sheet, the financial position of the Fund would be better understood if the deemed assets and deemed equity represented by deemed assets, which both amount to $3,047,073,000 were not included."

This is the fourth consecutive year that it was necessary to issue a reservation of opinion. I believe that I must continue to alert users of the financial statements as to the treatment of deemed assets when they consider the Heritage Fund's value.

Management of the Treasury Department continues to maintain that there are no generally accepted accounting principles appropriate for expenditures of this type and that the adopted accounting policy is appropriate.

My position is supported by the Canadian Institute of Chartered Accountants Handbook, and Statement 3 - General Standards of Financial Statement Presentation for Governments issued by the Public Sector Accounting and Auditing Committee of the Institute. Both publications provide adequate guidance for appropriate disclosure of assets and expenditures.

In a management letter to the Deputy Provincial Treasurer, Finance and Revenue, it was again recommended that deemed assets and deemed equity represented by deemed assets be removed from the balance sheet of the Heritage Fund.

Land Purchase Fund

year ended March 31, 1990

Use of Fund land

The Department of Public Works, Supply and Services continues to use Fund land for program purposes prior to the land being acquired from the Fund. As a result, program costs are understated. This concern was reported in my 1988-89 annual report (page 10).

At March 31, 1990, the Department had not reimbursed the Fund for land in use which was originally purchased by the Fund at a cost of approximately $21 million. Because the Department has not paid for this land, the $21 million of costs has not been reflected in its program expenditures. It is acknowledged that before the Department reimburses the Fund, there should be a supply vote against which the expenditure can be charged.

Accordingly, in a management letter to the Deputy Provincial Treasurer, Management and Control, it was again recommended that budget estimates presented to the Legislative Assembly include sufficient amounts to enable departments to reimburse the Land Purchase Fund before the land is required for development.

Treasury Branches Deposits Fund

year ended March 31, 1990

Connected loans and contingent liabilities

The systems used by Treasury Branches for identifying connected loans and contingent liabilities still need improving. This concern was also reported in my 1988-89 annual report (page 11).

Connected loans include outstanding loans and commitments to make loans, where there is common collateral or a sharing of sources of cash flow for repayment. Contingent liabilities include loan guarantees and letters of credit, and represent a potential outlay of funds.

Loan officers and others need ready access to complete and accurate information on connected loans and contingent liabilities at all times. They need it to assess credit applications, to monitor borrowers' abilities to repay loans, and to determine loan loss provisions.

At present, connected loan information is not recorded in a manner which facilitates quick and convenient access by those who need it. At the Edmonton general office, the information on its loans is compiled from individual loan applications and recorded on a micro computer. At the Calgary general office, however, no computerized record of this information is maintained.

Memorandum information on loan guarantees and letters of credit is maintained by branch offices. Full information on contingent liabilities must, therefore, be assembled from manually compiled listings submitted by branches. With this system, it is difficult to ensure that the information received is current, complete and accurate.

The best solution would be to capture all this information on Synergy, Treasury Branches' computerized management information and accounting system. This would provide all who need it with ready access to the information at all times. Management agrees that it would be useful to have access to this type of information. However, because of its other priorities, management has decided not to commit the necessary systems development resources at this time.

Pending a decision to progress this matter, I again made the following recommendation in a management letter to the Superintendent at the conclusion of the audit:

> Treasury Branches Deposits Fund - Connected loans and contingent liabilities
>
> **Recommendation No. 6**
>
> It is recommended that Treasury Branches improve its system for recording and providing ready access to information on loans and commitments that share common collateral or earnings, and on loan guarantees and letters of credit.

Restructured loans

Treasury Branches needs an effective system for keeping track of restructured loans.

Occasionally, loans are advanced to reduce or eliminate unpaid interest on existing loans, or overdrafts on operating accounts. While a borrower's overall financial condition and security may justify restructuring, these loans often bear a higher degree of risk than normal loans. They therefore require closer monitoring.

Treasury Branches' management information system, Synergy, does not identify loans advanced to replace unpaid interest or overdrafts. Enhanced use of the Synergy system would assist in identifying and monitoring these loans.

In a management letter to the Superintendent at the conclusion of the audit, it was recommended that loans advanced to replace unpaid interest or overdrafts be identified on Synergy.

Loan loss provisions

The system used by Treasury Branches to estimate loan loss provisions for non-accrual loans is deficient in certain respects.

In my last two annual reports (1988-89 page 11), I recommended that Treasury Branches improve its systems for estimating loan loss provisions. I am pleased to report that these systems have improved during the last two years, but there is still scope for further improvement with regards to non-accrual loans.

Treasury Branches' policy is to classify loans as "non-accrual" when doubt exists as to the collectability of a portion of their principal or interest. For these loans, all uncollected interest is removed from income in the current year. No part of any subsequent payments is treated as interest income until any specific provision against the loan has been removed.

Instances have occurred, however, where borrowers were experiencing operating losses or had insufficient cash flows to meet loan repayments, yet some of these loans were not classified as non-accrual. Treating all doubtful loans as non-accrual would lead to more accurate monitoring, and increase the accuracy of loan loss provisions.

Accordingly, in a management letter to the Superintendent at the conclusion of the audit, it was recommended that loans be classified as non-accrual as soon as doubt exists as to the collection of principal or interest.

Lending guidelines

Treasury Branches could benefit from expanding the application of its credit risk management systems.

In my 1988-89 report (page 12), I recommended that Treasury Branches establish, and regularly review, the maximum amount to be invested by loan categories to assist in the control of credit risk. Guidelines for maximum lending amounts have been set in a few instances, but not for all major areas. Lending objectives for major areas have also not been formally set. The setting of specific objectives and maximum lending amounts, followed by regular reviews, would formalize and document the regular analysis and assessment of the loan portfolio. This could enhance the return on the loan portfolio and reduce overall credit risk.

Setting suggested maximum lending amounts by loan type or program, by loan class or industry, and by loan connection could define the amount of risk that Treasury Branches is willing to assume. In addition, setting of objectives for lending amounts by loan program and industry could direct resources to preferred areas of lending as determined by management.

Setting guidelines of this nature would not preclude the granting of loans in individual circumstances. Each loan application would continue to be assessed on its own merits.

In a management letter to the Superintendent at the conclusion of the audit, it was again recommended that Treasury Branches expand the guidelines, and regularly review the maximum amount to be invested by loan type, loan class, and loan connection, to assist in the control of credit risk.

Management Information System

In addition to the opportunities described above, there is further scope for Treasury Branches to expand the use of its management information system, Synergy, to provide more useful and accurate management information.

Synergy is an on-line system that records and maintains information for Treasury Branches' 134 branches. The information it collects and makes available has significantly improved management's ability to monitor and control branch operations. As well, it provides better information on Treasury Branches' loan and deposit base and thereby has improved management's ability to manage the risk associated with changes in interest rates.

However, some of the information on Synergy is either not needed by management or is unreliable. For example, loan type codes used to identify loan class, purpose and collateral are not used consistently. Appropriate use of these computer fields would enable the loan portfolio to be monitored and evaluated more effectively. The system could also be used to record information that is currently recorded manually. For example, it could capture information on loans considered to be higher risk or which, for other reasons, need to be watched more carefully. This data would then be more accessible and could be used to evaluate the loan portfolio in a variety of ways. It may also decrease the current paper flow and result in cost and time savings.

Because of its other priorities, management has decided not to proceed at present with these amendments to Synergy.

Other entities

Financial audits of the following were also completed:

Alberta Capital Fund - year ended March 31, 1990
Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 1990
Alberta Heritage Scholarship Fund - year ended March 31, 1990
Alberta Municipal Financing Corporation - year ended December 31, 1989
Alberta Provincial Corporation Loan Fund - year ended March 31, 1990
Alberta Risk Management Fund - year ended March 31, 1990
Canadian Pooled Equities Fund - year ended March 31, 1990
Credit Union Deposit Guarantee Corporation - year ended December 31, 1989
Consolidated Cash Investment Trust Fund - year ended March 31, 1990
Farm Credit Stability Fund - year ended March 31, 1990
Pension Fund - year ended March 31, 1990
Provincial Judges and Masters-in-Chambers Pension Fund - year ended March 31, 1990
S C Financial Ltd. - year ended December 31, 1989
S C Properties Ltd. - year ended December 31, 1989
Small Business Term Assistance Fund - year ended March 31, 1990
Treasury Revolving Fund - year ended March 31, 1990
Utility Companies Income Tax Rebates Fund - year ended March 31, 1990
391760 Alberta Ltd. - year ended March 31, 1990

Trust Funds

Trust funds under Provincial administration are not included in the Province's consolidated financial statements because the Province has no equity in them. At March 31, 1990 trust funds under administration amounted to $2,182 million. Summarized information of the funds making up this amount is provided in Note 8 to the consolidated financial statements.

Trust funds for which the Audit Office audits separate financial statements are reported on in section 2 of this report. The following trust funds were treated as a group of similar entities and sufficient audit work was performed on the group to include it in Note 8 to the consolidated financial statements at March 31, 1990:

ADVANCED EDUCATION:

Advanced Education Endowment Funds
John Joseph Collett Memorial Scholarship Fund
E.R.Pendleton Estate Trust

AGRICULTURE:

Thomas Caryk Memorial Scholarship Fund
Claude Gallinger Memorial Fund
National Tripartite Price Stabilization Program Trust Account
Pennington Memorial Scholarship Fund
Stanley Shulhan Memorial Scholarship Fund
Wheat Board Money Trust Account
Woodgrove Unifarm Local Scholarship Fund
Wetaskiwin 4-H District Council Scholarship Fund

ATTORNEY GENERAL:

Land Titles Offices Trust
Maintenance Enforcement Trust
Various Courts and Sheriff's Offices Trust
Public Trustee - Estates and Beneficiaries Trust Accounts

CONSUMER AND CORPORATE AFFAIRS:

Collection Practices Act Trust
Debtors Assistance Trust
Insurance Companies Trust
Orderly Payment of Debts
Securities Act Trust

CULTURE AND MULTICULTURALISM:

Fort Dunvegan Historical Society Trust Fund
Gakken Dinosaur Exhibit Trust Fund
C.O. Nickle Trust Fund
Turner Valley Gas Plant Trust Fund

EDUCATION:

Federal French Language Grants Fund
Mildred Rowe Weston Estate Trust
School for the Deaf Donations
School for the Deaf Pupils Trust

ENVIRONMENT:

Surface Reclamation Fund

FAMILY AND SOCIAL SERVICES:

Child Welfare Family Allowance Trust
Child Welfare Trust
Various Institutions Trust Accounts

FORESTRY, LANDS AND WILDLIFE:

Junior Forest Warden Program Fund

HEALTH:

Various Institutions Trust Accounts

MUNICIPAL AFFAIRS:

Metis Settlement Associations Grants Administration Fund

PUBLIC WORKS, SUPPLY AND SERVICES:

Security Deposits Trust Fund

RECREATION AND PARKS:

International Youth Year - 1985 Trust Fund
1987 - Western Canada Games Trust Fund

SOLICITOR GENERAL:

Correctional Institutions Trust Accounts
Impaired Driving Initiatives Trust Fund

TREASURY:

- Bond and Coupon Accounts:
  - Matured Interest
  - Unpresented Debentures
- General Trust Account
- A.L. Sifton Estate
- Ultimate Heir Trust Fund "A"
- Ultimate Heir Trust Fund "B"

Department of Advanced Education

year ended March 31, 1990

Community Consortia

In my 1988-89 report (page 16), I recommended that the Department of Advanced Education seek legislative amendments to provide colleges with the necessary authority to administer consortia.

The community consortia, established in 1980 to provide educational programs, are organized through the cooperation of post-secondary educational institutions and members of local communities. The Department provides the consortia funds to public colleges designated as administrative agents by the Minister of Advanced Education. Public colleges did not have the capacity to act as agents under the provisions of the Colleges Act.

I am pleased to report that the Colleges Act was amended in 1990 to provide the needed statutory authority.

Students Finance Board

year ended March 31, 1990

In addition to the annual financial audit, my staff examined the work done to date by the Board's new Verification and Audit Unit. The Unit was established to determine if financial assistance provided to students is in excess of their needs. The Unit's planned activities indicate that it will be able to identify and recover amounts paid in excess of students' legitimate needs. I will continue to monitor the work done by the Unit.

Other entities

A financial audit of the **Students Loan Fund** was also completed for the year ended March 31, 1990.

UNIVERSITIES, RELATED ENTITIES AND THE BANFF CENTRE

The Provincially-owned universities, related entities and the Banff Centre operate under the authority of the Universities Act and the Banff Centre Act respectively. The financial statements of these Provincial agencies are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the aforementioned Acts, tables the audited financial statements of these agencies each year in the Legislative Assembly.

Athabasca University
year ended March 31, 1990

In addition to the annual financial audit, my staff completed a financial audit of the University's wholly-owned subsidiary company **Athabasca University Development Institute** for the year ended March 31, 1990.

Annual audit

In my previous annual report (page 19), I recommended that Athabasca University improve the supervision exercised by Financial Services over the preparation of financial management information.

I am pleased to report that progress was made in developing practices and procedures to facilitate greater control. The 1990 audit was completed more efficiently and no significant errors were found in the financial statements.

The University of Alberta
year ended March 31, 1990

In addition to the annual financial audit, financial audits were completed for the year ended March 31, 1990, of the following companies:

Alberta Laser Institute
Alberta Telecommunications Research Centre
Centre for Frontier Engineering Research Institute
The Alberta Microelectronic Centre

Financial statements, presentation and disclosure

For several years, I have thought that the clarity of disclosure of information in the financial statements of the University could be improved. I am pleased to report that through the actions of management and the Board Audit Committee significant improvements have been made in the presentation of information. I am confident that the continuing efforts being made in this area will further improve the University's financial statements.

Alberta Telecommunications Research Centre - Sponsorship agreements

Lack of guidelines for dealing with non-performance by sponsors under the terms of sponsorship agreements could result in loss to the Centre.

Alberta Telecommunications Research Centre was established to create and operate a joint university-industry telecommunications research centre for the benefit of its sponsors. To facilitate its activities, the Centre has entered into a number of sponsorship agreements setting out the amount of cash and service contributions to be made by sponsors. Service contributions are comprised of research and administrative time provided by the sponsors' employees.

Presently, sponsors pay the cash contributions required under the agreement, but they do not always fulfil the service contribution requirement. As the Centre does not have procedures to monitor compliance with sponsorship agreements, nor a policy for dealing with non-performance under the agreements, there is potential for the Centre to lose service contributions to which it is entitled.

In a management letter to the President of the Centre at the conclusion of the audit, it was recommended that the Centre develop policies and procedures to monitor and control sponsors' performance under the terms of sponsorship agreements.

The University of Calgary
year ended March 31, 1990

In addition to the annual financial audit, financial audits were completed for the year ended March 31, 1990, of the following companies:

University Technologies International, Inc.
The Arctic Institute of North America

The University of Lethbridge
year ended March 31, 1990

Financial controls

Important financial controls were absent or were not exercised consistently during the year.

Certain normally expected financial control functions were either not done or not performed promptly, resulting in reduced control and a lack of timely management information and reporting. By themselves, the absence of subledgers, not reviewing general ledger accounts, or not considering doubtful receivables, for example, may not be critical. Taken together, however, such weaknesses are cause for concern.

The appropriate assignment of tasks and responsibilities, and adequate supervision of staff is essential to maintaining control and providing accurate and timely information.

The University needs to identify and specifically assign financial responsibilities and tasks to improve control and provide timely management information.

In a management letter to the President at the conclusion of the audit, it was recommended that financial responsibilities and tasks be identified and specifically assigned.

Other entities

A financial audit of **The Banff Centre for Continuing Education** was also completed for the year ended March 31, 1990.

PUBLIC COLLEGES

The Provincially-owned public colleges operate under the authority of the Colleges Act. Although these colleges are Provincial agencies, their financial statements are not published in the Public Accounts, nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the Colleges Act, tables the audited financial statements of the colleges each year in the Legislative Assembly.

Alberta College of Art
year ended June 30, 1990

Loans to employees

In my 1988-89 report (page 24), I recommended that the Alberta College of Art refrain from making loans to employees in the absence of statutory authority. I noted that the Colleges Act did not give the College the specific authority to make loans.

In 1990, the Colleges Act was amended. The College interpreted this amendment as giving it the necessary authority. My legal counsel does not agree that the change has resolved my concern. Furthermore, I do not believe that it would be the intent of the Legislature to pass legislation which would enable the College to make loans to its employees for purposes not connected with the operations of the College.

At June 30, 1990, over half of the College's accounts receivable were for employee loans and advances. Advances comprised payroll advances and receivables arising from payment by the College of employees personal expenses. These practices also create additional accounting requirements and could result in misstatement of the College's expenses.

In a management letter to the Chairman of the Board of Governors at the conclusion of the audit, I made the following recommendation:

> Alberta College of Art - Loans to employees
>
> **Recommendation No. 7**
>
> It is recommended that the Alberta College of Art refrain from making loans to its employees for purposes unconnected with the College's operations.

Fairview College
year ended June 30, 1990

Consortium

In my 1988-89 report (page 25), I stated that the College needed to improve its safeguarding of, and accounting for, the fixed assets of the North Peace Adult Education Consortium. The College acts as the administrative agent for the Consortium, and holds its fixed assets in trust.

I am pleased to report that the assets of the Consortium were physically verified, and the Consortium's records were reconciled to those of the College, prior to the 1990 audit. These procedures resolve my concerns about the fixed assets of the Consortium held in trust by the College.

Fixed assets

The College's systems continue to be inadequate to record, safeguard and report on its fixed assets. In my previous report (page 25), I stated that the College needed to improve its procedures relating to the control and accounting for fixed assets.

The College currently reports over $8 million of furnishings and equipment located on the main campus and satellite campuses. A physical count was performed this year, for the first time since 1986. However at the time of the audit, the asset records had not been adjusted to reflect the results of the count. Audit tests continue to reveal errors in the fixed asset records.

In a management letter to the President at the conclusion of the audit, it was again recommended that the College improve its procedures relating to the control of, and accounting for, fixed assets.

Grant MacEwan Community College
year ended June 30, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used by the College to prepare and monitor the annual operating budget and to provide periodic financial reporting.

Fixed Assets

Physical control over the College's fixed assets is adversely affected by inadequate documentation of asset disposals and transfers.

Audit verification of fixed assets indicated that the asset records were not accurately updated for asset disposals and transfers between various departments or campuses.

In a management letter to the President at the conclusion of the audit, it was recommended that the College comply with its policies and procedures for documenting fixed assets disposals and transfers.

Keyano College
year ended June 30, 1990

Accounts Receivable

The College needs to improve its control over accounts receivable.

The College's systems and procedures do not provide adequate control and monitoring of amounts due to the College. The College's year-end accounts receivable balance of $477,000 included significant amounts which had been outstanding for a number of years. Approximately $70,000 of the receivables were not collectable, and had to be written off.

The College's computerized accounts receivable system is unable to match payments received with the invoices to which they relate. Therefore, it is difficult to prepare aged analyses of amounts outstanding. This hinders the identification and follow-up of delinquent accounts.

In a management letter to the Chairman of the Board of Governors I made the following recommendation:

> Keyano College - Accounts receivable
>
> **Recommendation No. 8**
>
> It is recommended that Keyano College improve systems and procedures for the control and collection of accounts receivable.

Lethbridge Community College
years ended June 30, 1989 and 1990

In addition to the annual financial audits, the following work was completed:

- An examination of the budget systems.
- An examination of the system which would enable the College to recover from a computer disaster.
- An examination of the system to control and process payroll transactions.
- An examination of the system to control the acquisition and use of computer resources.

Year-end procedures

In my 1988-89 report (page 26), I commented that the College was not prepared for the annual audit.

It was again noted that different procedures are used to prepare monthly and year-end financial reports. Standardized reports from the College's computerized financial system require considerable adjustments to provide information suitable for annual financial statement purposes. The use of different procedures and reports adds to the delay in preparing the College's annual financial statements.

The policies and practices followed throughout the year, and at year-end, can be improved to facilitate the preparation of year-end financial statements.

In a management letter to the President at the conclusion of the 1990 audit, it was again recommended that management develop improved procedures to prepare year-end financial statements.

Fixed Assets

The fixed asset records and the general ledger are not integrated and considerable effort is required to reconcile the two records.

At year-end these records were not reconciled, causing delay in completing the College's financial statements.

In a management letter to the President at the conclusion of the 1990 audit, it was again recommended that management review the procedures to control the recording of fixed asset transactions and movements in the capital fund during the year. It was also recommended that management review the procedures to reconcile fixed asset records and correct any deficiencies.

The College is committed to resolving the problems with fixed assets and has commenced remedial action.

Budget systems

The College can improve its budget and financial reporting systems.

The College's present system provides information needed for operating budget purposes. However, efficiency and effectiveness of the system could be improved. For example, the system tends to carry forward and accumulate past budget inaccuracies because prior period expenditures and revenues may not be an appropriate base for projections. Documentation of the budget process could also be improved, as could the extent of monthly reporting and follow up of variances from budgets.

The College is currently reviewing the budget system and has initiated some revisions.

In a management letter to the President at the conclusion of the audit, it was recommended that the College review and improve its budget system, including procedures to report and follow-up variances, to ensure that management is provided with meaningful and timely financial information.

Lakeland College
year ended June 30, 1990

Fixed assets

The College has not complied with its policies to account for and control fixed assets.

College policy requires that there be an annual physical verification of furniture and equipment. However, this verification was not done during the year ended June 30, 1990. Audit examination further indicated that the fixed asset records had not been accurately updated for transfers and disposals of assets, and some assets had not been tagged for identification.

In a management letter to the President at the conclusion of the audit, it was recommended that the College comply with its policies and procedures for the control of furniture and equipment.

Mount Royal College
year ended June 30, 1990

Fixed assets

The College needs to improve its accounting for and control of fixed assets.

In my 1988-89 report (page 26), I noted that College management had reduced the financial statement carrying value of fixed assets by $500,000. The reduction was intended to account for unidentified disposals of assets, as revealed by a review of fixed asset listings done by departments within the College. The College was expected to identify, and remove from its records, the value of specific assets disposed of.

Audit tests for the year ended June 30, 1990, indicated that the fixed asset records, which included approximately $18 million of furnishings and equipment, were still inaccurate as they included the value of assets no longer at the College. Management agreed to a further reduction of approximately $1.1 million in the carrying value of furnishings and equipment. It is still necessary, however, to correct the subsidiary fixed asset records so that the College can report the proper age and value of fixed assets to the Department of Advanced Education for capital funding purposes. Also, the College should continue with the verification of fixed assets by department.

In a management letter to the President of the College at the conclusion of the audit, I made the following recommendation:

> Mount Royal College - Fixed assets
>
> **Recommendation No. 9**
>
> It is recommended that Mount Royal College develop and implement procedures to control and report fixed asset disposals.

Other entities

Financial audits of the following were also completed for the year ended June 30, 1990:

Grande Prairie Regional College
Medicine Hat College
Olds College
Red Deer College

TECHNICAL INSTITUTES

The Northern Alberta Institute of Technology, the Southern Alberta Institute of Technology and the Westerra Institute of Technology all operated under the Technical Institutes Act. Although they are Provincial agencies, their financial statements are not published in the Public Accounts nor are they included in the Province's consolidated financial statements. The Minister of Advanced Education, who administers the Technical Institutes Act, tables the audited financial statements of the institutes each year in the Legislative Assembly.

Northern Alberta Institute of Technology

year ended June 30, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the tendering policies and procedures of the Board of Governors.
- An examination of the systems for preparation and monitoring of the annual operating budget, and for periodic financial reporting.

Compliance with policies and procedures

The Board of Governors did not comply with established Institute policies and procedures for purchasing, travel services, travel and entertainment expenses and hiring practices.

The Board's administrative powers and duties pursuant to the Technical Institutes Act include the power to "...determine the general policies with respect to the organization, administration and operation of the technical institute..." (section 7(b)).

The Technical Institutes Act further states, in section 12(3), that the President shall exercise the powers and perform the duties assigned to him by the Board, and is responsible for the general supervision over and direction of the operation of the technical institute including (a) the policies and programs of the technical institute,... and (d) the business affairs of the technical institute.

The following instances were noted of Board actions which were not consistent with the determination of general policies, and directly impacted the business affairs of the Institute:

Purchasing

The Board entered into contracts with a consortium of consultants without obtaining competitive tenders as required by Institute purchasing policy. The contracts were for approximately $368,000, of which $233,000 had been spent. This exceeds the highest level of purchasing that may be done by the Institute without obtaining quotes or tenders. The contracts were for development of an institutional evaluation and marketing strategy.

Considerable work had been done within the Institute on a similar study, which was curtailed by the Board to avoid conflict with the consultants' study.

The award of the contracts was extensively discussed by the Board, including reference to the non-compliance with purchasing policy, however, the Board did not specifically exempt its actions from Institute policy.

In another case, action by the Board contributed to a breach of Institute guidelines by the Marketing and Public Affairs department. The Board amended the expenditure approval authority for the department. This amendment was not consistently understood by the Marketing and Public Affairs department, some members of the Board and the Institute's administration. The department committed the Institute to a contract for a communications study by a consultant who had submitted the higher of two tenders. When subsequently informed of the contract, the Institute's central purchasing function objected to it because Institute guidelines had not been followed. No further action was taken as the consultant had already been informed by Marketing and Public Affairs that the tender submitted was successful.

Travel services

In 1988, the Institute requested tenders from travel agencies for the provision of travel services. The successful agency was expected to handle substantially all of the travel services required by the Institute. However, in 1989 Institute administration accepted instructions from the Executive Assistant to the Board to make all travel arrangements for members of the Board of Governors with another travel agency. This agency, which had previously provided travel services, was partly owned by a staff member of the Institute, who was also a member of the Board. This apparent conflict of interest was not officially addressed by the Board or the staff member involved.

Travel and entertainment expenses

By-laws of the Board state that members are to be reimbursed "for reasonable expenses incurred while engaged in business approved by the Board, in accordance with current Institute practices." Those practices relate to the nature and amount of expenses, the need for good judgement and prudence in expending public funds and the documentation required for proper accounting. In general, the documentation of Board members' expenses was not sufficient to determine that the expenses were properly related to Institute business and appropriately recorded in the accounting records. Some expenses were supported by invoices or credit card vouchers, without description of the nature or purpose of the expense. It was thus not possible to determine, for example, why some Board members were provided with first class airfare while others attending the same event travelled economy class.

Hiring practices

Two instances were noted where the Institute's Human Resource Services department was directed to deviate from normal hiring practices. One instance involved the classification and salary of the Executive Assistant to the Board. A September 1990 Board of Governors motion reclassified the position, despite the expressed concerns of Human Resource Services management about the impact of the reclassification on the Institute's salary and management structure.

The other instance occurred when the nearly completed in-house recruiting process for a Director of Marketing and Public Affairs was discontinued and a consultant was engaged to complete the process.

Section 28 of the Technical Institutes Act empowers the Board to "...appoint any officers and employees it considers necessary..." and "...determine the salaries...." This is normally one of the responsibilities delegated through the President to protect the integrity of personnel practices.

In a management letter to the President at the conclusion of the audit, I made the following recommendation:

> Northern Alberta Institute of Technology - Policies and practices
>
> **Recommendation No. 10**
>
> It is recommended that the Board of Governors of the Northern Alberta Institute of Technology comply with policies and practices of the Institute regarding purchasing, travel services, travel and entertainment expenses and hiring.

Much of the controversy surrounding the non-compliance with established policies and practices was manifested in the reactions of Institute staff, students and their associations. Public and private allegations were made that damaged the overall morale and standing of the Institute. It was perceived that the Board of Governors was overly secretive and involved itself in matters normally the responsibility of the administration.

In a management letter to the President at the conclusion of the audit, it was recommended that the Board of Governors and management of the Institute endeavour to improve staff morale by re-establishing an atmosphere of mutual trust and co-operation within the Institute.

Southern Alberta Institute of Technology

years ended June 30, 1989 and 1990

Financial reporting

The Institute's Finance Department is not fulfilling its assigned responsibilities for review and control of financial information.

In my 1988-89 report (page 29), I commented that the Institute was not as well prepared for the audit as in previous years, with the result that the audit continued until late December 1989. Consequently, it was not possible for me to include observations and recommendations arising from that work in my 1988-89 annual report.

During 1988 and 1989, monthly financial reports provided to the Board of Governors supported the expectation that the Institute would stay within its annual operating budget. However, in each year, significant year-end adjustments resulted in deficits of approximately $2 million more than budgeted. These deficits should have been detected much earlier to allow management and the Board to take any action necessary.

There were two major reasons for the non-detection of the deficits. Firstly, the periodic financial reporting to the Board was generally on a cash basis, not the accrual basis of accounting used for audited annual financial statements. Thus, year-end adjustments for such things as fluctuations in inventory values, accounts payable and prepaid expenses were not considered during the course of the year.

The second reason for non-detection of the deficits was that the Finance Department accepted financial information from operating departments at face value, without adequate review or confirmation.

Although financial information presented to the Finance Department remains the responsibility of submitting departments, the review function of the Finance Department is a necessary control to prevent and detect errors made by these departments.

Even though the Finance Department doubted the accuracy of the 1989 year-end operating information submitted by one of the departments, it accepted assurances from the department concerned that the analysis reflected the correct financial position. The Finance Department staff recorded the information in the accounts as submitted, and it was subsequently reported to the Board.

Subsequent to the 1989 year end, the Board of Governors engaged a firm of management consultants to review the Institute's procedures for the preparation of annual operating budgets, and the appropriateness and timeliness of financial reporting to management and the Board. The consultant's findings and recommendations were reviewed during the audit for the year ended June 30, 1990.

The 1990 audit required fewer adjustments to correct inaccurate financial information submitted by departments. However, the effect of applying accrual accounting showed that the Institute's projections of annual operating results were incorrect for much of the year.

In a management letter to the Acting President at the conclusion of the audit, I again made the following recommendation:

Southern Alberta Institute of Technology - Financial reporting

Recommendation No. 11

It is recommended that the Southern Alberta Institute of Technology's Finance Department improve the financial management of the Institute, and become more involved in the preparation and review of financial information processed for management and the Board of Governors.

Fixed assets

The Institute does not have current information regarding its fixed assets.

The general ledger fixed assets control account was not reconciled to the subledger system during the year ended June 30, 1989. Very few entries to update the general ledger control accounts were made during the year.

At the conclusion of the 1989 audit, I recommended that fixed asset reconciliations be kept current. Reconciliations were prepared up to the end of March 1990. However, the 1990 audit again found that reconciliations were not being done in a timely manner, and had not been prepared for the period April to the year-end and thereafter.

Ongoing reconciliation of fixed asset information is necessary for control, and can reduce the time and effort required at year-end. For example, audit tests revealed instances of incorrect recording of fixed asset transactions during the year that should have been detected and corrected much earlier.

In a management letter to the Acting President at the conclusion of the audit, it was again recommended that the Institute perform fixed asset account reconciliations in a timely manner to reduce delays in preparing annual financial statements, and to ensure that current information is available to the Board of Governors.

Inventories

The Institute's procedures for counting, valuing and controlling inventories of materials and supplies are inadequate.

The 1989 and 1990 physical inventory count process showed improvements over prior years. However, a considerable number of deficiencies were still present. There appeared to be a general lack of understanding as to the purpose of inventory counts, what was to be included in inventory and procedures required to achieve accurate results. Audit procedures indicated numerous errors in costing, extending and adding count sheets, and in the application of the lower of cost and net realizable value policy of the Institute. Prescribed count procedures were not always adhered to.

In the 1989 management letter to the President, it was recommended that inventory procedures be improved, including increased supervision of counts and management participation to ensure compliance with count instructions and accounting policies.

At the conclusion of the 1990 audit, the Institute decided to change its accounting policy regarding inventories. For 1990 and subsequent years, the Institute has concluded that only general inventories, such as Main Stores, Food Stores and Graphic Services will be recorded in the financial statements. This change in accounting policy resulted in a write-off of more than $2.2 million against the operating fund, representing the carrying value of department-specific inventories. Unfortunately, the materials and supplies written off were not fully analyzed to determine if some should have remained in inventories.

In a management letter to the Acting President at the conclusion of the audit, I made the following recommendation:

> Southern Alberta Institute of Technology - Inventories
>
> **Recommendation No. 12**
>
> It is recommended that the Southern Alberta Institute of Technology determine the nature, amount and value of materials and supplies held by departments and take appropriate action to count and record any items that are significant.

Deferred Salary Leave Plan

The required contributions and earned interest for the Institute's Four-For-Five Deferred Salary Leave Plan will not be sufficient to fund leave obligations.

Under the terms of this plan, in the fifth year participating employees receive, in monthly instalments, 85% of their base salary measured at the end of the fourth year. Funding for the fifth year payout is derived from a combination of employees' contributions and accumulated interest.

At June 30, 1989, it was estimated that obligations under the deferred salary leave plan would substantially exceed contributions and expected interest.

In the 1989 management letter to the President it was recommended that the intentions and obligations under terms of the Plan be reviewed and a strategy devised to minimize the potential cost.

At June 30, 1990, the Institute changed its accounting policy to recognize its obligations under the existing deferred salary leave plan. An amount of $810,000 was recorded as a liability and charged against the operating fund. The Institute also established another type of leave plan, to be funded entirely by employee contributions and earned interest, thereby avoiding further cost to the Institute.

International Education Department

The establishment of an international training centre was not adequately planned, administered or controlled, resulting in significant loss to the Institute and the Province.

The Institute has significantly expanded its involvement with international projects in recent years. Unfortunately, management and administration controls were not adequate for the increased activity. One such project, the Batam International Training Centre, resulted in major losses to the Institute.

The Institute's International Education Department undertook to establish a training centre on Batam Island, Indonesia. Other international projects have been successfully completed by the Institute and other Alberta post-secondary institutions, normally in conjunction with Canadian and foreign funding agencies. However, the Institute proposed to finance and control the Batam project on its own, under a joint venture agreement with an Indonesian firm.

The accounting function within the International Education Department was undefined and necessary internal controls were, for the most part, non-existent. Costs associated with specific project contracts were accumulated in the general administration account, invoicing and collection procedures were not coordinated with the Finance Department and expenditures were not adequately controlled.

Contract administration procedures were deficient, and did not always comply with the Institute's governing controls and guidelines. Although the approval of potential international projects depends on estimated project value, there was not always documented evidence that projects were financially evaluated. Guidelines for letters of intent were not followed, thus allowing third parties to withdraw from projects.

In addition to the significant expenditures by the Institute for the Batam project, the Province, at the request of the Institute, provided a loan guarantee to a sub-contractor on the project. The sub-contractor, Alert Disaster Control Inc. received $4,452,000 to construct and equip a training barge for the project.

At the conclusion of the 1989 audit, a number of specific recommendations were made for improving the monitoring, reporting and financial control of the International Education Department, including giving immediate attention to the transactions with Alert Disaster Control Inc.

In a management letter addressed to the Acting President at the conclusion of the 1990 audit, I made the following recommendation:

> Southern Alberta Institute of Technology - International Education Department
>
> **Recommendation No. 13**
>
> It is recommended that the Southern Alberta Institute of Technology re-evaluate the risks, costs and benefits of the operations of its International Education Department.

In May 1990, the Institute's Board of Governors decided to terminate the Batam Island project. A total deficit on the project of $6,097,506 was charged against the operating fund of the Institute. The Province of Alberta honoured the guarantee plus interest for the Alert Disaster Control Inc. loan, and has taken control of the training barge, which was moved to Singapore. The aborted Batam Island project thus cost the Institute and the Province approximately $10,700,000 less any amount that may be realized from the disposal of the barge.

Legislative authority

The Institute's loan to a sub-contractor was made without legislative authority. The Institute also did not have specific legislative authority to enter into a joint venture agreement.

During the period May 1988 to March 1989, the Institute advanced approximately $2,700,000 to Alert Disaster Control Inc. pending approval and receipt of a commercial loan by Alert. The Technical Institutes Act provides no specific authority for making loans. The advance was repaid by Alert from the bank loan amounting to $4,452,000 that had been guaranteed by the Province.

The Institute entered into a joint venture agreement in connection with the Batam project in south-east Asia. There is no authority in the Technical Institutes Act for this type of agreement.

In the management letter to the President at the conclusion of the 1989 audit I made the following recommendation:

> Southern Alberta Institute of Technology - Legislative authority
>
> **Recommendation No. 14**
>
> It is recommended that the Southern Alberta Institute of Technology not enter into agreements or transactions that are outside its legislative authority.

The 1990 audit did not disclose further loans made without legislative authority.

Westerra Institute of Technology
period ended July 11, 1990

By Order-In-Council dated July 11, 1990, the operations, assets and liabilities of the Westerra Institute were transferred to the Northern Alberta Institute of Technology. Financial statements were prepared as at July 11, rather than at the previous year end of June 30.

Department of Agriculture
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the financial and administrative controls exercised over the payment and subsequent use of Agri-Food and Processing Development grants, and Marketing Development grants.

- An examination of the management controls in place to administer the Irrigation Rehabilitation and Expansion Program, with particular emphasis on the role of the Irrigation Council and the Irrigation Secretariat in the administration of the Program.

Payment without authority

The Department paid a grant which was not in accordance with the governing legislation.

In September 1989, the Department paid a grant of $100,000 which was charged to the Support for Primary Production Program. The grant was to partially compensate an auction company which had delivered livestock to a buyer, but had been unable to obtain payment.

The Department believed that it had adequate authority to pay the grant. However, I have a legal opinion which concludes that the grant was paid without appropriate legislative authority for two reasons. Compensating an auction company for a failed business transaction is not within the purposes for which grants can be paid under section 2, schedule 1 of the Agricultural Grant Regulation. Also, the applicant did not submit a written application in the approved form. It appears that the grant was paid following verbal representations.

It is recommended that, in future, the Department of Agriculture ensure that grants under the Support for Primary Production Program are paid in accordance with the prevailing legislative authorities.

Lambco

The Alberta Agricultural Development Corporation has continued to operate its Lambco Division without legislative authority.

In my 1988-89 annual report (page 29), I commented on the unusual legislative and accountability status of Lambco. Lambco is a meat-processing plant in Innisfail, Alberta. It has been operated as a division of the Corporation since it was acquired by the Province in 1977. Over the years, Lambco has become increasingly profitable and at March 1990 its net assets were valued at approximately $3.1 million, of which approximately $2.5 million was cash.

It was always intended that the Corporation's ownership of Lambco would be temporary. I have a legal opinion which concludes that the Corporation does not have the legislative authority to operate Lambco. Accountability is also a concern because Lambco's expenditure estimates are not reviewed by the Legislative Assembly, its profits are not included in the Province's consolidated revenue and expenditure, and financial reporting is confined to summary information in a note to the Corporation's financial statements.

The sale of Lambco would remove both of these concerns.

The Department of Agriculture has intensified its efforts to sell Lambco and is entertaining bids from interested buyers. If, however, a sale cannot be finalized, the Department has undertaken to seek proper legislative authority for the Corporation to operate Lambco.

Pending either event, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that if the Department is unsuccessful in its efforts to sell Lambco, it obtain the necessary legislative authority for the Corporation to operate the Division.

Alberta Agricultural Development Corporation

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an audit of the separate financial statements of Lambco, a division of the Alberta Agricultural Development Corporation, for the year ended March 31, 1990.

Loan without legislative authority

A commercial loan advanced by the Corporation lacked appropriate legislative authority.

Section 13 of the Agricultural Development Act authorizes the Corporation to make loans to "primary producers of agricultural products, the owners of associated businesses and agricultural industries" for certain specified purposes. In 1989-90, the Corporation advanced $280,000 to a company which does not fall under the group listed above.

In a management letter to the Corporation's Chairman at the conclusion of the audit, it was recommended that the Corporation take more care in future to avoid making loans that are ultra vires its legislative capacity.

The Corporation agrees that the loan would have been more properly advanced by the Alberta Opportunity Company and is negotiating to transfer it to that Company.

Employee computer purchase loans

In my 1988-89 annual report (page 30), I reported that the Corporation was making loans to its employees to purchase their own personal computers, although it lacked the legislative authority to do so. At March 1989 there were 75 loans outstanding totalling more than $200,000. I recommended that the Corporation refrain from making these loans unless or until it obtained appropriate legislative authority.

I am pleased to report that no new loans were advanced by the Corporation during 1989-90 and that the balances on the loans outstanding have reduced significantly.

Alberta Hail and Crop Insurance Corporation
year ended March 31, 1990

In addition to the annual financial audit, my staff completed an audit of the Province's 1989-90 cost-sharing claims under the Canada-Alberta Crop Insurance Agreement.

Weaknesses in financial controls

The Corporation should act more promptly to address identified weaknesses in its financial controls.

Previous annual audits revealed weaknesses in the Corporation's financial and internal controls, some of which were long-standing. I identified some of the problems in my 1988-89 annual report (page 31).

The 1989-90 audit revealed that most previously identified control weaknesses had persisted throughout much of that year. For example, bank reconciliations were prepared several months in arrears, payroll registers were not reconciled monthly to the general ledger, and not all journal entries were adequately supported. In addition, some disbursements were not properly authorized, the fixed asset sub-ledger was not reconciled periodically to the general ledger, and some of the financial records were often in arrears.

In late 1989, the Corporation took an important first step towards addressing its financial control problems by appointing a Director of Finance and Administration. The increased management supervision this afforded soon revealed that expenditure irregularities had occurred. An investigation by the Audit Office and the RCMP confirmed that a loss of approximately $18,000 had occurred over a fifteen month period. This amount has since been recovered from the Corporation's insurers.

The Corporation has now further strengthened its financial management team. In addition, assurances have been received that the control weaknesses described above have been or are being addressed. However, the irregularities that occurred underline the importance of good internal control and of eliminating weaknesses promptly.

In a management letter to the General Manager at the conclusion of the audit, it was recommended that, in future, the Corporation take prompt action to address identified financial control weaknesses, and thereby reduce the risk of irregularities occurring and remaining undetected.

Non-compliance with legislative authorities

Previous annual audits also revealed that the Corporation has not always operated strictly in accordance with the terms of Regulations and related agreements. This practice persisted throughout 1989-90. For example,

- penalties for late filing of seeded crop reports were not levied as required by regulation,
- the high risk subsidy given on policies with individual coverage was not calculated in the manner prescribed by regulation,

- insurance elections were accepted after the deadline prescribed by regulation,
- claims of forage contract policy-holders who withdraw, then later return to the program, were not reduced as required by regulation,
- certain premiums were included in the billing to the Federal government for matching grants, even though they were not allowed by the agreement with the Government of Canada, and
- certain crops and share-rates were used incorrectly in the claim under the Canada/Alberta Waterfowl Crop Damage Compensation Agreement, thereby overstating the claim.

In a management letter to the General Manager at the conclusion of the audit, it was recommended that the Corporation either comply with the legislative authorities governing its operations or, alternatively, seek to have them amended.

I have received assurances that the Corporation is now operating in compliance with several of the Regulations which were amended in July 1990.

Alberta Terminals Ltd.

years ended July 31, 1989 and 1990

In addition to the annual financial audit, my staff completed an audit of the financial statements of the Company's wholly owned subsidiary **Alberta Terminals Canola Crushers Ltd.** for the years ended July 31, 1989 and 1990.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1990:

Alberta Agricultural Research Institute
Alberta Dairy Control Board
Crop Reinsurance Fund of Alberta
Irrigation Land Manager
Livestock Identification and Brand Inspection Fund
Livestock Patrons' Assurance Fund
Stray Animals Act Fund
The Horned Cattle Purchases Act Trust Account

Department of the Attorney General
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of systems used by the Department to disburse funding to the Crimes Compensation Board and the Legal Aid Society.
- An audit of the Province's 1989-90 claim for financial support from the Government of Canada for programs and services for victims of crime.

Claims for civil legal aid

The systems used to provide funding to the Crimes Compensation Board and the Legal Aid Society are generally good. However, the Department has chosen to defer seeking recovery of certain expenditures which appear to be shareable with the government of Canada.

The Department has explored, with the Department of Family and Social Services, the possibility of submitting claims for cost-sharing certain civil legal aid expenditures under the Canada Assistance Plan. Although the amount claimable was estimated to be $300,000, it was decided that claiming would not be cost-beneficial. It is understood that there was also concern that claiming cost-sharing could restrict the Province's options, which are currently under review, for providing assistance for civil legal aid.

In a management letter to the Deputy Attorney General at the conclusion of the audit it was recommended that, pending a decision on how the Province will continue to fund civil legal aid, the Department continue its efforts to find ways of ensuring that eligible expenditures are cost-shared with the government of Canada.

The Alberta General Insurance Company
year ended December 31, 1989

Unnecessary expenditures

The Department of the Attorney General should take action to enable the Company to avoid paying income taxes and incurring other expenses unnecessarily.

The Company is administered by staff of the Department of the Attorney General. Except for one insurance policy covering certain government property, the Company has ceased operating and is essentially dormant. Its assets at December 1989 consisted mainly of a $517,000 bank account. The interest earned on this money is responsible for the profit recorded by the Company each year.

Unlike most Provincial agencies, the Company is not exempt from paying income tax. Until now, no tax has been payable because annual profits have been offset against accumulated tax losses from prior years. The balance of these losses, however, was applied in 1989 leaving the Company with $3,900 of tax payable for that year. If no action is taken to avoid it, the tax liability for 1990 will be approximately $22,500.

A way to prevent the occurrence of this tax liability would be to transfer the surplus cash out of the Company, thereby reducing or eliminating its interest income. However, the Alberta General Insurance Company Act does not allow the Company to distribute its surpluses, except by way of reduced premiums.

In a management letter to the Company's General Manager at the conclusion of the audit, I questioned the value derived from incurring these expenses and paying income tax, a portion of which is paid to the federal government. It was recommended that the Company take immediate action to avoid incurring income tax unnecessarily.

I have since been informed that the government has decided that the Company should be maintained as it is, however, its Directors should continue to minimize to the extent possible the Company's tax liability.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1990:

Chattel Security Registries Assurance Fund
Registrar's Assurance Fund

Department of Career Development and Employment
year ended March 31, 1990

In addition to the annual financial audit for the year ended March 31, 1990, my staff examined the systems used to monitor and report to management the quantity and quality of training provided by Industry Based Training Programs.

Department of Consumer and Corporate Affairs

year ended March 31, 1990

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Alberta Insurance Council

year ended December 31, 1989

Non-compliance with Regulations

Certain activities of the Council are not in compliance with the Regulations under the Insurance Act, or duties delegated to the Council by the Superintendent of Insurance.

The Alberta Insurance Council, which was established in 1988, is the administrative arm for several other insurance industry councils formed at the same time to take over the licensing and monitoring activities carried out by the Department. The powers and duties of these councils are defined in the Insurance Act, and include those powers and duties which the Superintendent of Insurance is authorized, by Regulation, to delegate to them.

The Superintendent has specifically delegated to the Alberta Insurance Council the duty to receive applications from persons seeking to obtain or renew their licenses as insurance agents and adjusters. However, the Regulations do not permit the Superintendent to delegate this duty. Also, the Alberta Insurance Council is approving or refusing applications received. The Superintendent did not delegate this responsibility to the Council.

Accordingly, in a management letter to the Council's Chairman at the conclusion of the audit, it was recommended that the Council seek to have the Superintendent of Insurance amend or obtain amendments to the authorities so that the Council's activities comply with those authorities.

Department of Culture and Multiculturalism

year ended March 31, 1990

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Glenbow-Alberta Institute

year ended March 31, 1990

In addition to the annual financial audit, separate audits were completed of the financial statements of the Glenbow Foundation and Luxton Museum Ltd.

My report on the 1989-90 financial statements of the Institute contains a reservation of opinion because, as explained on page 118 of this report, the Institute receives donation revenue which is not susceptible of complete audit verification.

The Alberta Foundation for the Performing Arts

year ended March 31, 1990

Fixed assets

The Foundation's fixed asset policies allow for fixed assets, no longer required by the Foundation, to be disposed of at book value which may not be market value.

Some fully depreciated assets, including an oak desk and a steel filing cabinet, were given to employees of the Foundation at no charge. Also, the Foundation had removed two microcomputer systems, including a laser printer and a large capacity hard disk drive, from its accounting records. Spreadsheet, word processing, accounting and database software packages were written off at the same time. This hardware and software was purchased over the period from July 1984 to September 1986. The Audit Office was informed that some of this equipment was located at the home of an employee and that the Foundation had considered giving some of it away.

The book value of assets cannot be considered a substitute for market value and the Foundation should obtain suitable market value estimates for all assets no longer required.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation assess the appropriateness of its policy for write off and disposal of fixed assets no longer required.

Other entities

Financial audits of the following were also completed:

Alberta Multicultural Fund - year ended March 31, 1990
Culture and Multiculturalism Revolving Fund - year ended March 31, 1990
The Alberta Art Foundation - year ended March 31, 1990
The Alberta Foundation for the Literary Arts - year ended March 31, 1990
The Alberta Historical Resources Foundation - year ended December 31, 1989
The Government House Foundation - year ended March 31, 1990

Department of Economic Development and Trade

year ended March 31, 1990

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entities

Financial audits of the following were also completed:

Alberta Opportunity Company - year ended March 31, 1990
Alberta Intermodal Services Ltd. - year ended December 31, 1989
Alberta Motion Picture Development Corporation - year ended March 31, 1990
Motion Picture Development Fund - year ended March 31, 1990

Department of Education
year ended March 31, 1990

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entities

Financial audits of the following were also completed:

Education Revolving Fund - year ended March 31, 1990
Northland School Division no. 61 - year ended August 31, 1989
School Foundation Program Fund - year ended March 31, 1990
Teachers' Retirement Fund - year ended August 31, 1989

Department of Energy
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the system used by the Department to monitor the accuracy of oil and gas production information needed to calculate and verify oil and gas royalties, mineral taxes and related incentives.
- An examination of various components of the system used to verify the calculation of natural gas and by-products royalties. These included the systems used to verify exemptions, verify gas and by-products information, verify gas injection data, and assess compliance with the Alberta Average Market Price regulations.
- An examination of the systems used to plan and control the work of the Department's Internal Audit function.
- An examination of the procedures to plan and control field audits as implemented by the Mineral Revenue Division Field Audit Unit.
- An examination of the systems used by the Department to calculate crude oil royalties, mineral taxes and related incentives.
- A financial statement audit of the Investment in the Syncrude Project for the year ended March 31, 1990.

Oil and gas production data

In my last four annual reports (1989 page 36), I recommended that the Department obtain better assurance that oil and gas production data supplied by the Energy Resources Conservation Board is accurate enough to verify royalty calculations. I am pleased to report that during 1989-90, the Board made considerable progress in developing systems and procedures that can provide the Department with suitable oil production data. With respect to gas production data, efforts continue to address the Department's requirements.

In a management letter to the Deputy Minister of Energy, and the Chairman of the Energy Resources Conservation Board, it was recommended that the Board continue to improve the quality of production data supplied to the Department. I will monitor progress in this matter in future audits.

Gas price verification

In my last three annual reports (1989 page 37), I commented on difficulties experienced by the Department in verifying gas selling prices reported by royalty payers.

I am pleased to report that in 1989-90, the Department addressed these difficulties by developing a Fair Value Confirmation process, which verifies selling prices on royalty returns received from producers. These prices are compared with the prices reported by purchasers of natural gas and by-products. Prices reported by royalty payors that differ significantly from the prices reported by purchasers are subject to audit by the Department's

Validation Unit. These audit results are considered by the Department's Mineral Revenues Division Field Audit Unit when determining the extent of its work.

Review of the Fair Value Confirmation process indicates that significant progress has been made to address the concern I had expressed in previous years, and therefore my previous recommendation is not repeated.

Crude oil royalty, mineral revenue tax and related systems

During the 1989-90 audit, my staff examined the systems used to calculate crude oil royalty, mineral revenue tax and related incentives. This examination was designed to assess the validity of management's assertions that these systems have appropriate controls and produce reliable information. Except for the concerns referred to above under oil and gas production data, the examination concluded that these assertions were valid.

Deductions from royalties

The Public Accounts of the Province do not disclose significant deductions allowed in arriving at net royalty revenue. Disclosed royalty revenue is net of deductions relating to gas cost allowance and enhanced oil recovery relief.

The purpose of the gas cost allowance is to reimburse royalty payers the costs incurred on behalf of the Crown to process the Crown's royalty share. The annual cost of the allowance is approximately $275 million. In the Public Accounts, this amount is netted against the royalty amount disclosed. I believe the allowance represents the cost to the Crown of collecting its royalties and as such should not be deducted in arriving at the amount disclosed as natural gas and by-products royalty. It would be preferable to show both the gross royalty and the cost of collecting it.

The Crown also allows producers to deduct incremental costs incurred in increasing oil production from certain reservoirs. The deduction, called enhanced oil recovery relief, amounts to approximately $250 million per year. The deduction is allowed against total royalties otherwise payable but has no direct relationship to the established oil royalty rates for producing wells. I believe that given the significance of the amount, its disclosure could provide useful accountability information to the Legislature about the enhanced oil recovery program.

Separate disclosure of the amounts spent on the gas cost allowance and enhanced oil recovery relief would not only increase the usefulness of the information in the Public Accounts, but would also achieve consistency. Certain deductions are already separately disclosed in reporting the Province's income tax revenue.

I understand that the Department has discussed the recommended presentation with the Treasury Department.

In a management letter to the Deputy Minister of Energy at the conclusion of the audit, it was recommended that the Department liaise with the Treasury Department concerning separate disclosure of deductions from royalty in the Public Accounts, commencing with the year ending March 31, 1991.

Internal Audit Function

The efficiency and effectiveness of Internal Audit could be improved by better planning, more timely reporting, and more consistent audit documentation.

The Departments of Energy and Forestry, Lands and Wildlife share the services of a single internal audit function.

Audit efficiency and effectiveness should influence the allocation of resources. Audit work should be based on an assessment of where Internal Audit's involvement could be beneficial by dealing with potential loss, risk or any known problems. In planning its work, however, Internal Audit relies on a listing of auditable units compiled from experience of previous audit work and a review of Departmental computer processing and systems development plans.

The Departments are engaged in diverse activities with different factors critical to their success. Identification of potential audit areas based on a documented comprehensive knowledge of the Departments will enable Internal Audit to improve its efficiency and effectiveness. It is essential, therefore, that Internal Audit maintain a thorough knowledge of each Department.

Internal Audit is not promptly reporting the results of its work. Delays of up to 6 months have occurred between the end of audit field work and issue of a final report.

The Internal Audit manual is intended to guide the audit staff but does not provide guidance on matters such as evaluation of new computer based systems or the use of computer-assisted audit techniques. Carefully prepared guidance material in writing would help prevent misunderstanding. A review of selected audit files also revealed that some working papers did not meet the standards included in the manual.

In a management letter to the Deputy Ministers of Energy and Forestry, Lands and Wildlife at the conclusion of the audit, it was recommended that Internal Audit improve its long-term audit plan and the procedures used to carry it out.

Energy Resources Conservation Board

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the Production, Injection and Disposition system.

Production, Injection and Disposition system

The Board needs to improve its management of the Production, Injection and Disposition system.

The Production, Injection and Disposition system records and edits production data from oil and gas wells in the Province. The Department of Energy uses the information produced by this system to calculate royalties and mineral taxes.

A review of the system revealed that while the system is satisfactorily processing a high percentage of production information received from oil and gas producers, errors and warning messages identified by the system are not being followed up promptly. Hence, the potential for the system to assist in the investigation of unreported oil and gas production is not fully realized. At the time of the review approximately 22,000 error messages remained unresolved. This backlog of uninvestigated warning messages represents a significant risk that information is inaccurate. My staff was informed that the industry's inability to submit accurate returns contributed to the problem.

Amendments filed by producers are not updated on the system in a timely fashion. Amendments for the period May to November 1989 were not processed until January 1990. Unprocessed amendments impact the accurate calculation and timely collection of provincial mineral revenues.

In a management letter to the Chairman of the Board, I made the following recommendation:

> Energy Resources Conservation Board - Production, Injection and Disposition System
>
> **Recommendation No. 15**
>
> It is recommended that the Energy Resources Conservation Board improve its management of the Production, Injection and Disposition system by improving the quality of the information entered, and promptly resolving error messages and processing amendments.

The cost and anticipated benefits of the Production, Injection and Disposition system were not assessed at regular intervals during development. The development of the system started in 1984, and was expected to take three years and cost $831,000. The projected cost is now estimated at $2.6 million with the expectation that the system will be fully implemented by April 1991. The additional time and resources required were primarily as a result of numerous system changes requested by the users of the system to deal with matters not anticipated at the system design stage. The Board has not reassessed whether anticipated annual cost savings forming part of the original justification for the Production, Injection and Disposition system will be achieved. Several of the system's objectives have not been achieved. A post implementation review may help management evaluate achievements to date, and reassess further development of the system based on current needs. Such a review will also provide information on the efficiency of the development methodology used.

I acknowledge that development of the system has been affected, to some extent, by factors not anticipated in the original plan.

In a management letter to the Chairman of the Board, I made the following recommendation:

Energy Resources Conservation Board - Production, Injection and Disposition System

Recommendation No. 16

It is recommended that the Energy Resources Conservation Board carry out a post-implementation review of the Production, Injection and Disposition system, based on the objectives and requirements of the Board.

Alberta Oil Sands Technology and Research Authority

year ended March 31, 1990

In my 1988-89 annual report (page 39), I commented that some of the contracts entered into, and research payments made by the Authority, did not comply with legislative requirements. I recommended that the Authority refrain from disbursing research funding in a manner which does not accord with its legislation.

I am pleased to report that the Authority took appropriate action and no incidence of non-compliance with legislation was noted during the 1989-90 audit.

Other entities

Financial audits of the following were also completed:

Alberta Petroleum Incentives Program Fund - year ended March 31,1990
Alberta Petroleum Marketing Commission - year ended December 31, 1989
Natural Gas Pricing Agreement Act Fund - year ended December 31, 1989
Take-or-pay Costs Sharing Fund - year ended December 31, 1989

Department of the Environment
year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to administer the activities of the Department's Environmental Protection Services Division and, in particular, to monitor the enforcement of certain environmental protection provisions of the Agricultural Chemicals Act and Pesticide Sales, Use and Handling Regulation.

Monitoring enforcement

The Department needs more comprehensive procedures for determining whether the requirements of some of the Acts and Regulations it administers are enforced.

Section 16 of the Agricultural Chemicals Act requires local authorities to appoint sufficient inspectors to carry out the provisions of the Act within their municipal boundaries. However, the Department does not currently have procedures for determining whether all local authorities appoint inspectors or whether sufficient inspectors are appointed. It is understood, however, that the Department and local authorities are presently defining the role of these inspectors.

Sections 27 and 31 of the Pesticide Sales, Use and Handling Regulation require all vendors who sell potentially harmful pesticides to be licensed. The Department does not have a system for checking that all such vendors are licensed.

In addition, sections 37 and 38 of the Regulation require a person knowledgeable in the safe use of pesticides to be at all licensed premises. These sections also require vendors of pesticides to draw to the attention of purchasers the label recommendations dealing with the hazards, first aid treatment, proper use, transportation, storage and disposal of the pesticide and its container. The Department does not have a system for checking whether these requirements are complied with.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department improve the procedures used to monitor the enforcement of environmental protection legislation administered under the Agricultural Chemicals Act and the related Regulation.

The Department has since indicated that it intends to increase enforcement monitoring in 1990-91.

Alberta Special Waste Management Corporation
year ended March 31, 1990

Legislative non-compliance

The Corporation is funding the dissemination of its waste management expertise, although it does not have the legislative authority to do so.

Section 3 of the Special Waste Management Corporation Act limits the scope of the Corporation's operations to activities related to the establishment, maintenance and closure of its waste management facilities.

The Corporation believes, however, that Alberta's expertise in waste management should be made available internationally. To this end, the Corporation spent $252,000 during 1989-90 setting up an organization to disseminate information and expertise. While it is understood that funds were provided specifically for this purpose in the Corporation's operating grant, activities of this nature do not fall within the Corporation's objects as defined in section 3 of the Act.

In a management letter to the Corporation's President and Chief Executive Officer at the conclusion of the audit, it was recommended that the Corporation either comply with the legislative authorities which limit the scope of its operations or, alternatively, seek the necessary amendments thereto.

The Corporation has since indicated that it is seeking appropriate legislative amendments.

Environment Council of Alberta

year ended March 31, 1990

Hiring authority

The Council is hiring staff for purposes not authorized by legislation.

The Environment Council Act requires the Council to review the policies and programs of the government on matters relating to environment conservation. Members of the Council are appointed by the Lieutenant Governor in Council. Section 6 of the Act allows the Council to hire support staff, but only for secretarial and clerical purposes. However, approximately ten of the Council's current staff perform other functions.

In a management letter to the Council's Chief Executive Officer at the conclusion of the audit, it was recommended that the Council either comply with the provisions of the Environment Council Act which prohibit it from hiring staff other than for secretarial and clerical purposes, or seek amendments to the Act to allow it to hire such staff.

Water Resources Revolving Fund

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the information systems and procedures used by the Department of the Environment to acquire, manage and dispose of equipment and other fixed assets of the Water Resources Revolving Fund.

Equipment acquisitions

The Department is unable to demonstrate that some of the equipment purchased for the Fund was needed and acquired in an economical manner. Furthermore, equipment has been acquired without following the formal tendering process.

The Fund provides machinery, equipment, services and material for the construction, operation, maintenance and rehabilitation of water management projects of the Department of the Environment. At March 1990, the Fund owned equipment which cost $7.5 million.

Some of the equipment acquired in recent years has hardly been used. Some was acquired even though similar equipment was already owned and remained idle for periods before and after the acquisitions. As well, equipment was sometimes acquired without following the government's formal tendering process. In these cases, there was no documented evidence of the bids obtained, or of the reasons for accepting the successful bids.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department formalize a process for collecting, evaluating and documenting the information upon which equipment acquisition decisions are based.

The Department has agreed to implement this recommendation and to formalize its acquisition processes and documentation standards in a policy and procedures manual.

Equipment utilization information

The equipment utilization information used to manage the Fund's equipment is fragmented and incomplete.

Some of the available information is kept centrally in Edmonton, while some is kept at the warehouses and repair shops. Some of this information is brought together in productivity reports which are prepared periodically for each item of equipment. These reports are used in managing the Fund's equipment, although the information in the reports is incomplete and deficient in several respects.

For example, the reports do not separate preventive maintenance costs from the costs of repairs due to breakdowns. This makes it difficult to identify equipment which incurs frequent or major repair costs, and to evaluate the benefits of the Fund's preventive maintenance program. Furthermore, the reports do not record utilization in a common unit of time. As a result, the reports are difficult to interpret and of limited value.

Management acknowledges the inadequacy of these reports and agrees that a better management information system is needed. However, no firm plans are in place and no time-lines have been set for implementing such a system. The benefit of a computer-based asset management information system would be that senior management in Edmonton would have ready access to the detailed information needed to exercise better supervisory control over branch operations.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Water Resources Revolving Fund - Equipment utilization information

Recommendation No. 17

It is recommended that the Department of the Environment implement a system capable of providing management at head office and elsewhere with the cost, usage, breakdown, maintenance and disposal information needed to manage the equipment owned by the Water Resources Revolving Fund.

Internal control - separation of duties

Better controls are needed to address an extreme concentration of managerial responsibilities at the Department's main equipment repair shop and warehouse which is in Lethbridge.

Effective internal control involves assigning responsibilities so that no one person controls all aspects of a transaction or operation. Separating duties in this way can reduce the likelihood of errors or irregularities occurring and remaining undetected. The size of the Lethbridge operation, however, makes a satisfactory separation of duties difficult to achieve.

Nevertheless, the concentration of duties is extreme. For example, although the senior manager is not an expenditure officer, the responsibilities include major involvement in deciding on equipment needs, initiating equipment purchases, and defining the specifications of equipment to be acquired. The senior manager also has physical control over equipment, control over its utilization and its maintenance, and a major role in decisions to dispose of it. Furthermore, when equipment is acquired using direct purchase orders, the same manager usually obtains the bids and recommends the successful vendor.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Water Resources Revolving Fund - Internal Control, separation of duties

Recommendation No. 18

It is recommended that the Department of the Environment implement a system capable of providing the information needed by senior management at head office to exercise sufficient control to compensate for the undue concentration of responsibilities at the Water Resources Division's main equipment repair shop and warehouse.

Other entities

A financial audit of the **Alberta Environmental Research Trust** was also completed for the year ended March 31, 1990.

Department of Executive Council

year ended March 31, 1990

In addition to the annual financial audit, audits of numerous federal cost-sharing claims by Alberta Public Safety Services under the Joint Emergency Planning Program were completed.

Other entities

Certain members of the Executive Council have been charged by the Lieutenant Governor in Council with the administration of the following Acts:

- Interprovincial Lottery Act
- Wild Rose Foundation Act
- Workers' Compensation Act

My observations on the entities which operate pursuant to these Acts are, therefore, included here under Executive Council.

Lottery Operations

year ended March 31, 1990

Collection and disbursement of lottery funds

Accountability to the Legislative Assembly for the disbursement of lottery funds is not complete, nor are lottery funds being administered in accordance with legislation.

The Western Canada Lottery Corporation operates lotteries on behalf of the three prairie provinces and the two territories. It receives lottery revenues and makes payments therefrom for prize money and for the Corporation's administration costs. From Alberta's share of the net lottery revenues, the Corporation then makes additional payments:

a) for expenses incurred by the Provincial Marketing Organization to advertise and promote lotteries and distribute lottery tickets to retailers;

b) for expenses incurred by the Province's Program and Services Office to administer the payment of grants from the Lottery Fund;

c) to the Government of Canada under a Federal - Provincial agreement to compensate the Federal government for its withdrawal from the lottery field; and

d) to the Lottery Fund, which receives the remainder of lottery revenues.

The gross lottery revenues, Alberta's share of prizes and of the Corporation's costs, and the payments referred to in (a), (b) and (c) above are not disclosed in the Public Accounts of the Province. As a result of this non-disclosure, certain expenditures incurred by the Province are not subject to the review of the Legislative Assembly, and accountability to the Assembly for the disbursement of Alberta's share of lottery revenues is not complete. It is acknowledged, however, that amounts deposited in the

Lottery Fund are included in the Public Accounts.

Moreover, estimates for lottery expenditures are not included in the Province's annual budget and therefore are not subject to the review or approval of the Legislative Assembly.

In my 1988-89 annual report (page 76), I recommended that to comply with legislation all lottery revenues be deposited in the General Revenue Fund, that all costs, including the costs of administering the Lottery Fund, be paid under the authority of a supply vote, and that the net lottery proceeds after deducting all these costs, be transferred from the General Revenue Fund to the Lottery Fund. My recommendation was based upon legal advice which concluded that lottery revenues are public money and should be handled in this manner. Implementation of this recommendation would address my concerns related to accountability and legislative compliance.

In reply to the recommendation the government has stated that the Minister concerned has received legal advice which concludes that lottery revenues and costs are being handled as required by the Act. This advice, as contained in a memorandum from the Department of the Attorney General dated January 10, 1990, has been provided to the Audit Office.

The memorandum has been examined by my legal counsel but the views expressed therein have not caused him to alter his opinion.

In a management letter to the Deputy Minister of Public Works, Supply and Services at the conclusion of the audit of the Lottery Fund, I again made the following recommendation:

> Lottery Operations - Collection and disbursement of lottery funds
>
> **Recommendation No. 19**
>
> It is recommended that the Minister responsible for administering the Interprovincial Lottery Act comply with prevailing legislation by making arrangements to:
>
> - transfer all of Alberta's lottery revenues directly to the Province for deposit to the General Revenue Fund;
> - provide funds under the authority of a supply vote to cover all costs of Alberta's lotteries including:
>
>   .Alberta's share of prizes,
>   .Alberta's share of the administration costs of the Western Canada Lottery Corporation,
>   .compensation payments to the government of Canada,
>   .costs of the Provincial Marketing Organization, and
>   .costs of administering the Lottery Fund; and
>
> - transfer net lottery proceeds from the General Revenue Fund to the Lottery Fund.

To resolve these concerns, amendments to the Interprovincial Lottery Act could be considered. Express authority could be provided to allow the Province to transfer to the Western Canada Lottery Corporation the administration of gross lottery revenues and the following expenditures:

- Alberta's share of prizes,
- Alberta's share of the Corporation's administration costs, including retailers' commissions, and
- Compensation payments to the Government of Canada.

Net lottery proceeds after payment of the above could then be transferred to the Lottery Fund by the Western Canada Lottery Corporation.

Provision could be made for supply votes to pay from the General Revenue Fund the administration costs of the Provincial Marketing Organization and the Lottery Fund. Alternatively, the Interprovincial Lottery Act could be amended to allow these costs to be paid from the Lottery Fund.

Lottery Fund

period ended March 31, 1990

Financial Administration Act

In my 1988-89 annual report (page 77), I commented that certain requirements of the Financial Administration Act for regulated funds were not being complied with in the administration of the Lottery Fund.

In March 1990, the administration of the Lottery Fund was exempted from the provisions of the Financial Administration Act by Order in Council. Accordingly, my legal concerns in this regard have been dealt with.

The Wild Rose Foundation

year ended March 31, 1990

Purpose of the Foundation

There is no clear legislative authority for the Foundation's Volunteer Development Initiatives program. This matter was reported in my 1988-89 annual report (page 40).

The Foundation is involved in a program of volunteer recognition, training and development. Although the Board believes it is operating within the spirit of its legislation, in the opinion of my legal counsel this program is beyond the Foundation's legislatively approved scope of activities.

During 1989-90, the Foundation continued its initiatives in this area, including the direct expenditure of $347,000 on various promotions designed to recognize and develop volunteer activity within the Province.

The Foundation has requested an amendment to the wording of its Act that will specify that one of the Foundation's stated purposes is to "...promote volunteerism in Alberta." However, at the date of this report, such an amendment has not received legislative approval.

Accordingly, in a management letter to the Foundation's Chairman at the conclusion of the audit, it was again recommended that the Foundation take steps to ensure that the Volunteer Development Initiatives program is in compliance with the Wild Rose Foundation Act and Regulation.

Approval of grants

Certain grants requiring Ministerial approval have been made without that approval.

In my 1988-89 report (page 40), I described how some of the grants paid in that year contravened limitations set out in the Regulation to the Wild Rose Foundation Act. Three further grants, amounting in total to approximately $113,000, were paid without proper authority during 1989-90. In one case, the funds raised by the recipient did not fully match the grant given by the Foundation. Two grants were paid for purposes falling within the objects of another funding organization. These three grants required Ministerial approval which had not been obtained.

In a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation comply with the provisions of its Regulation which require Ministerial approval.

The Workers' Compensation Board
year ended December 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the policies and operating procedures used by the Board to administer its appeals process.
- An audit of the Schedule of Charges to the Federal Government Deposit Account for the year ended December 31, 1989.

Appeal process

Claimants have a high rate of successful appeals to increase compensation awards previously made by the Board.

Any person having a claim for compensation under the Workers' Compensation Act has the right to appeal decisions made by the Board. The first level of appeal is the Claims Services Review Committee. An unfavorable decision by this Committee can be further appealed to the Appeals Commission.

The high rate of successful appeals is to some extent due to incomplete or misunderstood information in claims files, and ineffective communications between claimants and adjudicators.

In a management letter to the President and Chief Executive Officer at the conclusion of the examination, I made several recommendations in support of those actions which the Board had initiated to correct the deficiencies noted. It was recommended that:

- management continue to improve the quality of adjudication through greater emphasis on training and supervision of adjudicators; and

- management implement procedures to review decisions of the Claims Services Review Committee and the Appeals Commission as a basis for policy formulation, clarification or amendment.

Department of Family and Social Services
year ended March 31, 1990

In addition to the annual financial audit, the following work was done:

- An examination of the systems used by the Department to control expenditures under the Social Allowance and Assured Income for the Severely Handicapped Programs. This included examining the procedures used to promote compliance with the Department's Income Security Programs Manual and Assured Income for the Severely Handicapped Manual and reviewing the progress made in addressing the recommendations that arose during previous audits.
- An examination of the systems used by the Department to control and manage the delivery of personal support services to people with disabilities.
- An examination of the methodology used by the Department to develop the Local Income Security Application System.
- An examination of the systems and procedures used by the Department to investigate and resolve cases where it is suspected that program benefits have been obtained fraudulently.
- Audits of the 1988-89 annual cost-sharing claims on the Government of Canada under the Canada Assistance Plan Agreement and the Vocational Rehabilitation Of Disabled Persons Agreement.

In my last three annual reports, I commented on long-standing deficiencies in the systems used to control and record expenditures, and to verify the eligibility of benefit entitlements, under the Social Allowance and Assured Income for the Severely Handicapped programs.

The Social Allowance program provides assistance to people in need. This involves providing the money, goods and services essential to health and well-being, as defined in legislation. Assured Income for the Severely Handicapped is an income-tested program that provides financial and health benefits for handicapped adults. Social Allowance payments during 1989-90 totalled $665 million and Assured Income for the Severely Handicapped benefits totalled $138 million. The Department refers to people who receive benefits under these programs as clients.

These systems were examined again during the 1989-90 audit, together with a selection of benefit payments from the 56 district offices. The Department's efforts to address previously reported systems deficiencies were also examined. As evidenced by the following observations, problems still exist.

Incorrect benefit payments

Incorrect benefits are being paid under the Social Allowance and Assured Income for the Severely Handicapped Programs because district offices are not complying with the requirements of the Department's program manuals.

Almost 48% of the client files examined during the audit revealed deviations from the procedures required by the manuals, and some files contained more than one deviation. Furthermore, almost 11% of the deviations resulted in incorrect benefits being paid. It should be noted that these overpayments and underpayments resulted from administrative errors; they do not include incorrect payments that may have resulted from fraud.

Based on the payment errors found, it is estimated that overpayments of $12.3 million and underpayments of $1.1 million occurred during 1989-90. The 1988-89 audit revealed a similar incidence of errors.

I acknowledge the efforts that have reduced the error rate to its present level. Audits prior to 1988-89 revealed a higher incidence of incorrect benefits. However, further improvements appear warranted.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Family and Social Services - Incorrect benefit payments
>
> **Recommendation No. 20**
>
> It is recommended that the Department of Family and Social Services continue to seek ways of improving compliance with established policies, and thereby further reduce the incidence of incorrect benefits paid under the Social Allowance and Assured Income for the Severely Handicapped Programs.

Day care subsidies and operating allowances

Reconciliation procedures, which verify the accuracy of day care subsidy and operating allowance expenditures, can produce significant cost and control benefits.

In May 1989, the Department implemented a computer-based Day Care Information System. Among other things, this system is used to accumulate the amount of day care expenditures that are eligible for cost-sharing under the Canada Assistance Plan Agreement. Until recently, however, these expenditures were not reconciled to the day care program expenditures reported by the Province's main expenditure system.

The audit revealed a difference between the two systems of more than $9 million. The Department then began monthly reconciliations and by the conclusion of the audit had reduced the unreconciled difference to $2.3 million. This exercise resulted in approximately $1 million of additional expenditures being identified that are cost-shareable under the Canada Assistance Plan.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Family and Social Services - Day care subsidies and operating allowances

Recommendation No. 21

It is recommended that the Department of Family and Social Services resolve unreconciled differences between day care expenditures as reported by the Department's Day Care Information System and the Province's main expenditure system, thereby providing assurance that all eligible expenditures are cost-shared.

Overpayments and repayments receivable system

The Department has not yet implemented a system to control the previously reported increases in overpayments and repayments receivable.

Overpayments are benefits paid in excess of entitlements, which the Department can recover. Repayments are advances or loans to clients to cover security deposits, property tax arrears, purchases of trade tools and similar outlays.

In my 1988-89 annual report (page 65), I acknowledged that the Department had eliminated many of the previously reported delays in this area, and had generally improved internal control. Despite this improvement, however, new overpayments and repayments receivable are still averaging more than $1 million per month. Furthermore, in some district offices caseworkers are not always notifying assessors when clients' personal circumstances change. This can often delay the identification of overpayments and the setting up of related accounts receivable.

The Department is confident that these problems will be eliminated by its new computer-based Local Income Support Application System. However, the system's implementation has been delayed.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the reasons for increases in overpayments and repayments receivable be identified and that strategies be developed to address the problems.

Assured Income for the Severely Handicapped Program

Stricter compliance with program manuals would help to ensure that expenditures are cost-shared where possible with the Government of Canada, and that the Department is paying benefits only to eligible clients.

Eligibility for benefits under the Assured Income for the Severely Handicapped Program is assessed based on a client's income. The cost of some of these benefits may be shareable with the Government of Canada. To assess cost-shareability, however, the Department must obtain details of clients' assets and shelter costs. For this reason, the Department's Assured Income for the Severely Handicapped Manual requires caseworkers to ask for details of applicants' assets and shelter costs, even though this information is not needed to assess their eligibility for benefits. Some clients do not provide this information.

I called attention to this situation in my 1988-89 annual report (page 64), and suggested that the Department may be foregoing opportunities to share costs with the Government of Canada.

I have another concern relating to the continuing eligibility of clients who receive benefits under the Assured Income for the Severely Handicapped Program. To determine the continued eligibility of these clients, the Department needs to review their circumstances periodically. This need is recognized in the Program manual which requires clients' circumstances to be reviewed annually. However, many of the client files examined during the audit contain no evidence that annual reviews have been performed.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Assured Income for the Severely Handicapped Program
>
> **Recommendation No. 22**
>
> It is recommended that the Department of Family and Social Services facilitate the shareability of costs by requiring all clients who receive benefits under the Assured Income for the Severely Handicapped Program to disclose their assets and shelter costs. In addition, the Department should review annually the continued eligibility of clients who receive such benefits.

Contracted agencies

The Department needs better procedures for identifying and coding the expenditures of contracted agencies that are cost-shareable under the Canada Assistance Plan Agreement.

Some of the Department's clients live in residences operated by non-government agencies. Under contracts with the Department, these agencies receive funding and provide welfare services to the clients. Some of this funding is shareable with the Government of Canada under the Canada Assistance Plan Agreement. For the funding to be shareable, however, the individual agencies and residences must be approved by the Government of Canada.

The audit revealed that some of the agencies and residences whose expenditures were being claimed for cost-sharing had not been approved. Some of these residences needed approving, but for others, there was uncertainty due to a recent change in the Federal government's approval criteria. In some cases, the Department was waiting for applications to be approved.

The audit also revealed instances where the Department's systems and coding structures did not provide sufficient information for cost-sharing purposes. For example, errors occurred because all the funding provided to several residences was coded under one account code and there was no analysis of what was shareable and what was not. In addition, certain non-shareable expenditures of contracted agencies were not being identified and excluded from the claim.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department resolve existing uncertainties and take steps to ensure that only eligible expenditures of approved agencies are cost-shared. It was also recommended that the Department improve its systems and coding structures relating to the cost-sharing of these expenditures.

Audits of Canada Assistance Plan Claims

The Province's 1988-89 cost-sharing claim under the Canada Assistance Plan Agreement exceeded $487 million. The audit of the claim was completed in January 1990.

As illustrated in the preceding pages, the systems used to administer the Social Allowance and Assured Income for the Socially Handicapped Programs contain numerous weaknesses. As well, the process used to prepare Canada Assistance Plan claims is cumbersome and error-prone.

For these reasons, I advised the Department that the Chief Financial Officer's certificate on the 1988-89 claim should state that the required control procedures did not operate effectively during 1988-89. The Chief Financial Officer, however, did not disclose these systems weaknesses in his certificate to the Government of Canada. My audit report on the claim, therefore, contained a reservation of opinion.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department streamline the process it uses to compile and validate the information used to prepare Canada Assistance Plan claims, and establish analytical review procedures designed to improve the accuracy of such claims.

Monitoring day care programs

The Department still needs better procedures for monitoring the adequacy of the children's developmental needs aspect of its day care program.

I am pleased to acknowledge that the Department has taken action to eliminate most of my previously reported concerns with the systems used to administer the day care program. Part of this action was the establishment of a training program for child care licensing officers. However, although this program includes instruction in day care centre programming, licensing officers are still not assessing the adequacy of day care programming.

Accordingly, the Department is unsure whether day care centres are complying with section 14 of the Day Care Regulation which requires these programs to be in keeping with the developmental needs of the children. As well, there is no requirement that any observed deficiencies are taken into account when license renewals are considered, although it is acknowledged that this does sometimes happen.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Department of Family and Social Services - Monitoring day care programs

Recommendation No. 23

It is recommended that the Department of Family and Social Services improve its procedures for monitoring the adequacy of developmental programs provided by children's day care centres, and for following up and eliminating observed deficiencies in the programs.

Widows' Pension Program - Investigating overpayments

In my 1988-89 annual report (page 67), I recommended that the Department ensure that files identified as containing potential overpayments of widows' pension benefits be reviewed promptly by assessors to increase the likelihood that overpayments will be recovered.

I am pleased to report that the Department has since improved its procedures and that files identified as containing potential overpayments are now being reviewed promptly by assessors.

Child Welfare Services and Information System

The Department has not yet addressed previously reported deficiencies in its Child Welfare Information System.

The Department's Child Welfare Services Branch provides services to protect and support children in care. This includes operating child-care institutions and group homes, and contracting with community agencies to provide related services. The Branch also administers support agreements, supervision orders, foster care and adoption. The Child Welfare Information System is designed to provide caseworkers with access to information on the children who receive these services.

In my 1986-87 annual report, I first commented on deficiencies in the system. These included concerns relating to the information on the system, and the degree to which it was meeting the needs of caseworkers.

I am pleased to report that the Department has eliminated some of these concerns, although others have persisted. For example, the system is still unable to produce all the information needed for the Department's annual reports. For example, the Department's 1988-89 annual report did not identify the legal status of more than 700 of the children receiving welfare services. Also, the report did not show details of the physical placement of 3,200 of the 8,200 children in the Department's care.

Recently, the Department initiated a redevelopment project to address the remaining concerns. Funding of this project, however, has still not been confirmed and, even if it is, the development stage is not planned for completion until October 1991.

At the conclusion of the audit, it was again recommended in a management letter to the Deputy Minister that the Department make the Child Welfare Information System more effective by improving its ability to meet the operational needs of caseworkers and the information needs of the Department.

Prescription drug benefits

Significant cost-savings could be realized if the Department's clients made more extensive use of generic or other lower-cost drugs, rather than more expensive brand name drugs.

The Department pays, through Alberta Blue Cross, the prescription drug costs of income support clients who receive benefits under the Health Benefits Program.

Since 1986, the Province has had an agreement with the Alberta Pharmaceutical Association that unless a drug is prescribed by the manufacturer's name, or it is otherwise not in the best interests of the patient, prescriptions should be filled with lower-cost drugs. However, Alberta Blue Cross estimated in 1990 that 52% of the prescriptions filled for the Department's clients could be filled with lower-cost drugs, but that only 7% of them are. This represents approximately $4 million of unnecessary expenditures.

I commented on this in my 1988-89 annual report (page 68). The Department is now a member of the Alberta Drug Review and Utilization Group, a committee with representatives from the Department of Health and various medical and professional associations. The Group is in the process of developing a draft policy on the use of generic drugs in health care. However, no formal policy has yet been issued.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department continue to encourage the appropriate use of generic or lower-cost drugs for its clients.

Vocational Rehabilitation of Disabled Persons cost-sharing claims

Errors have occurred in the Department's annual claims for cost-sharing under the Vocational Rehabilitation of Disabled Persons Agreement with the Government of Canada.

The Department coordinates the rehabilitation services provided through the Departments of Advanced Education, Career Development and Employment, Health, and Family and Social Services, as well as the Alberta Alcohol and Drug Abuse Commission. Under the Agreement, audited claims for cost-sharing are forwarded annually to the Government of Canada.

The audit of the 1988-89 claim for over $16.6 million was completed in March 1990.

Expenditures incurred by the Department on sheltered workshops are eligible for cost-sharing under the Agreement. It was observed during the audit, however, that the Department has traditionally restricted amounts claimed to the cost estimates approved by the Federal government. When the actual costs were substituted, the 1988-89 claim increased by $420,000.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Vocational Rehabilitation of Disabled Persons cost-sharing claims
>
> **Recommendation No. 24**
>
> It is recommended that the Department of Family and Social Services review, and revise as necessary, the expenditures on sheltered workshops included in prior years' claims under the Vocational Rehabilitation of Disabled Persons Agreement with the Government of Canada.

After this recommendation was made, the Department and the Government of Canada agreed to significant increases in the 1986-87 and 1987-88 claims. The Department is now exploring possibilities for reviewing earlier claims.

Fraud investigations

The Department needs to improve the system it uses to investigate instances where it suspects that program benefits have been obtained fraudulently.

For fraud investigations to be effective, they must be carried out promptly. Delays increase the risk of further overpayments, and reduce the likelihood of successful recovery or prosecution. In addition, prompt investigation and prosecution communicates to the public that the Department has a low tolerance for fraud.

During 1989-90, delays of up to two years were occurring before new referrals were investigated.

In addition, the Department's investigation practices differed throughout the Province. A procedures manual supporting a Province-wide policy is needed to help ensure that investigations are carried out equitably and consistently.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Fraud investigations
>
> **Recommendation No. 25**
>
> It is recommended that the Department of Family and Social Services continue its efforts to ensure that fraud investigations are carried out promptly and consistently.

Management has acknowledged the need for prompt investigations and has since increased its fraud investigation staff. In addition, the Department is in the process of implementing a centralized investigation policy, and producing a procedures manual.

Systems for administering personal care services for the disabled

The Department needs to define and formalize its responsibilities for providing personal care services to the disabled.

In recent years, the Department has encouraged and provided financial support to disabled people who wish to live in the community, rather than in institutions. Under the Personal Care Services Program, approximately 1,000 adults now receive funding.

However, the Department has never issued regulations or program delivery guidelines for the Personal Care Services Program. There is no formal statement of the Department's responsibilities for providing these services, or guidelines to promote fair and consistent service delivery.

Without a policy statement, it is unclear whether some of the services should really be the responsibility of other provincial departments. In addition, some client and support groups have difficulty planning their activities. They need more authoritative information on the nature and extent of services available, how to obtain the services, and how long they will be provided. As well, regional appeal panels do not have all the information they need when ruling on appeals involving personal care services.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

> Department of Family and Social Services - Personal Care Services Program
>
> **Recommendation No. 26**
>
> It is recommended that the Department of Family and Social Services issue regulations or program delivery guidelines which define the nature, extent and source of personal care services available to the disabled.

In December 1990, a Regulation was issued which defines the nature and extent of personal care services.

Personal Care Services Program information

There is scope for improving the system used to gather and report information on the nature, extent and cost of personal care services provided to the disabled.

Each regional office is in the process of developing its own information system for administering personal care services. This is a duplication of effort. It may result in the various systems producing information that is of limited value to senior management because it is not comparable between regions. A co-ordinated approach to developing a system could prevent this, and could also help to ensure that all relevant information is captured.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department co-ordinate the development of a system for collecting, processing and monitoring information on personal care services provided to the disabled.

The Department acknowledges the need for improved collection and processing of information, and is developing a prototype system.

Department of Federal and Intergovernmental Affairs

year ended March 31, 1990

Non-compliance with legislative authorities

The Department's office in London, England, has not complied with legislative and related authorities. After this matter was brought to my attention by the Deputy Minister, my staff confirmed the cases of non-compliance described below.

The Department is responsible for the co-ordination of all activities of the Government of Alberta and its agencies in relation to the Government of Canada, the governments of the provinces and territories of Canada and the governments of foreign countries. Foreign offices are located in London, Tokyo, Hong Kong and New York.

Bank accounts were established in London into which monies from third parties and sublease revenue were deposited. This contravened section 19 of the Financial Administration Act which requires all receipts of public money of this type to be deposited in the General Revenue Fund.

The bank accounts were established without the approval of the Treasury Department, and the sublease did not have the approval of the Lieutenant Governor in Council as required by section 5 of the Agent-General Act. In addition, Treasury Board approval for certain hosting expenses was not obtained.

Money deposited in the unauthorized bank accounts was used to pay office expenses in London, personal expenses, and disbursements on behalf of third parties. The use of these funds in this manner was not in accordance with prescribed expenditure controls as set out in section 37 of the Financial Administration Act.

It is my understanding that the sublease has now been cancelled. Money received for the sublease, and third party deposits placed into one of the accounts has been recovered and deposited in the General Revenue Fund. The Department is also taking action to improve procedures and controls over bank accounts, and the receipt and expenditure of public money in the foreign offices. The resolution of these matters will be reviewed by my staff at a later date.

Department of Forestry, Lands and Wildlife

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used to plan and control the work of the Department's Internal Audit function.

Timber Export Charges

In my 1988-89 annual report (page 42), I reported that the Department has no method for ensuring that all exported lumber originating in Alberta is properly identified and reported to Revenue Canada. As a result, it cannot be sure that Alberta is receiving the timber export charge to which it is entitled.

During 1989-90 my staff reviewed correspondence exchanged between the Department and the Excise Branch of Revenue Canada, which is responsible for the collection of the softwood lumber charge. Considerable progress appears to have been made in alerting the Excise Branch of the ways in which Alberta lumber can be identified. Personnel from the Department have, on occasion, accompanied Excise Branch auditors to identify Alberta lumber destined for the United States. The Department has also provided the Excise Branch with a listing of all lumber mills in Alberta, and their unique identification numbers which are stamped on the lumber, so that identification is possible.

In my 1988-89 annual report, I noted that based on information provided to the Department by a lumber trade association, the Province may have been entitled to a significantly higher share of the export charge. Information provided by the Department to the Excise Branch of Revenue Canada should enable Excise Branch auditors, in the course of their audit cycle, to verify the information filed by the lumber exporters.

I acknowledge that the Department has done what it could to progress my recommendation. The control over the determination of the Softwood Lumber Export Charge and its allocation to the Province rests with the Government of Canada.

In a management letter to the Deputy Minister of Forestry, Lands and Wildlife at the conclusion of the audit, it was recommended that the Department continue to liaise with Revenue Canada, Excise Branch, in ensuring that the Province is receiving the timber export charge to which it is entitled.

Internal Audit Function

The Internal Audit function is shared by the Departments of Energy and Forestry, Lands and Wildlife. I have reported my concerns regarding this function under the Department of Energy (page 57).

Other entities

Financial audits of the following were also completed:

Fish and Wildlife Trust Fund - year ended March 31, 1990
Forest Development Research Trust Fund - year ended March 31, 1990
Forestry, Lands and Wildlife Revolving Fund - year ended March 31, 1990

Department of Health
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed.

- An examination of the systems used by the Department to determine equipment needs of hospitals and to allocate funds to hospitals for the purchase of capital equipment.

- An examination of the registration and revenue systems at the Vital Statistics Branch.

- An examination of the methods used to manage the development of a new computer system to process payments of health care claims.

Funding of capital equipment at hospitals

The Department does not have an adequate system for planning its long-term funding priorities for equipment purchases requested by hospitals.

Annually, hospitals submit to the Department lists of equipment needed. The requested equipment is listed in priority order for each department within each hospital. As a result, the equipment needs do not reflect each hospital's overall equipment priorities. Department staff review each Hospital's equipment needs and determine which equipment will be funded. There are no Departmental guidelines, however, to assist the staff in this evaluation.

The Department estimates that equipment with an original cost of approximately $1 billion is currently in use in Alberta hospitals. Information to estimate costs in the longer-term for replacement and technologically advanced equipment is not collected and used to develop long-term funding strategies.

A good system for funding capital equipment at hospitals should include identification of:

- the age and replacement cycles of existing equipment at hospitals; and
- the programs to be delivered by each hospital and the associated equipment needs.

Such a system would assist the Department to:

- set priorities on equipment to be funded;
- determine the placement and sharing of expensive equipment;
- forecast funding requirements; and
- allocate limited funds.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Funding of capital equipment at hospitals

Recommendation No. 27

It is recommended that the Department of Health improve its systems for determining the equipment needs of hospitals and how those needs can be funded.

Computer systems at hospitals

The Department's and the Alberta Hospitals Information Technology Advisory Council's plan for the use of information technology at hospitals may not be completed in time to be of value to hospitals currently developing computer systems.

The Alberta Hospitals Information Technology Advisory Council consists of representatives from hospitals and the Department of Health. The Council recommends policies and directions to the Deputy Minister of Health on information technology issues at Alberta acute care hospitals.

In my 1988-89 annual report (page 45), I commented that the Department should continue to work with hospital administrators to prepare a strategic plan for co-ordinating the development of computer systems and the use of information technology by hospitals. Such a plan is currently being developed and needs to be finalized.

Completion of a plan is especially important as the Department's survey of hospital information systems revealed that significant expenditures will occur over the next three years.

The new Management Information System for hospitals requires significant amounts of new computer resources. Large teaching hospitals are developing major systems such as patient care systems and operating room systems. These systems are being developed independently by each hospital and are likely to use different hardware and software technologies even though the user requirements are similar.

The strategic plan should identify priorities and discourage hospitals from duplicating systems development efforts and allow the benefits of any systems development to be shared among hospitals.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Health - Computer systems at hospitals

Recommendation No. 28

It is recommended that the Department of Health, in conjunction with the Alberta Hospitals Information Technology Advisory Council, finalize its strategic plan for information technology in Alberta hospitals.

I wish to acknowledge that significant steps were taken during 1989-90.

The Council and Departmental staff developed an inventory of computer systems in use at hospitals and also developed criteria to help determine funding requirements for hospital computer systems. An outline of a manual covering the Department's policies and procedures for hospital computer systems was prepared and a consultant was retained to assist in further development of the manual. Also, hospitals' basic automation requirements have been specified.

Allocation of equipment grants

The method of allocating equipment grants to hospitals needs to match the hospital programs being offered.

Under the Alberta Hospitalization Benefits Regulations, hospitals are provided with certain types of equipment grants (formula grants) based on their rated bed capacities. Since these Regulations were established, changes have taken place in program delivery at hospitals. For example, there is now a greater emphasis on outpatient care resulting in increased outpatient activity.

These changes in program delivery have not been reflected in changes in the formula used to determine equipment grants.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended the Department reconsider the formula for allocating equipment grants to hospitals.

Health care claims payment computer system

Accountability of staff and committees working on the Project to develop the health care claims payment computer system can be improved.

The Department is developing a major computer system to replace the claims systems used to pay physicians who bill the Alberta Health Care Insurance Plan.

The roles and responsibilities of Project staff members and committees as documented by the Department are not complete and are sometimes not adhered to.

For example, the Project Steering Committee has not fulfilled its responsibility "to monitor and control the development of the Claims system." The Committee has not been active and did not meet during the period from January to July 1990.

Project documentation describes the responsibilities of Project committees but does not describe each committee member's responsibilities. The information needed by staff members to manage the Project is also not defined. Clarification of these responsibilities and roles will assist those involved to understand their required contribution for the Project's success.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the responsibilities and roles of those involved in the development of the health care claims payment computer system be clarified.

Health Information Processing Strategy

Delays in selecting long-term technologies for hardware, software and telecommunications may increase the Department's overall systems development costs. Systems presently being developed without anticipation of long-term requirements may have to be redeveloped.

In 1987, the Department approved directions for a Health Information Processing Strategy to be used for all systems development. These directions provide for cost savings and other benefits to be realized from systems development projects using standards for hardware, software and telecommunications. After my staff examined the new health care claims payment system Project in December 1988, I recommended that the Department ensure that the Project meet the standards of the Health Information Processing Strategy.

The strategy, however, has not yet been developed to a level where it can provide direction to the Project.

In a management letter to the Deputy Minister, it was recommended that the Department complete the Health Information Processing Strategy so that all systems development projects can benefit.

Services provided at hospitals

The Department has not yet taken any action on the recommendation in my 1988-89 annual report (page 44) that the Department consider changes in its systems and procedures to ensure that hospital services are provided free of charge only to patients who are registered with the Alberta Health Care Insurance Plan.

Hospitals provide services free of charge to health care registrants if they produce their Alberta Health Care card or later telephone the hospital with their registration number. There is no confirmation with the records of the Alberta Health Care Insurance Plan that the person receiving the service is actually registered at the time the service is provided.

Hospitals are providing data to the Department of Health on inpatients, but not for outpatients. Also, the inpatient data is not current. Moreover, the Department does not establish, from the information submitted by hospitals, that services were provided free of charge only to persons registered with the Alberta Health Care Insurance Plan.

In a management letter to the Deputy Minister at the conclusion of the audit, I repeated the following recommendation:

> Department of Health - Services provided at hospitals
>
> **Recommendation No. 29**
>
> It is recommended that the Department of Health consider changes in its systems and procedures to ensure that hospital services are provided free of charge only to patients who are registered with the Alberta Health Care Insurance Plan at the time of service.

Claims from physicians for services performed at hospitals

The Department has not yet taken any action on the recommendation in my 1988-89 annual report (page 45) that the Department verify physicians fee-for-service claims, for services provided at hospitals, with the records submitted by hospitals. At present, there are no procedures to check that fee-for-service claims agree with the hospital records submitted to the Department.

The purpose of my recommendation is not to question the integrity of the physicians who submit claims, but to improve the internal control systems at the Department. A universal principle of control is that all payments should be supported by evidence that services were provided. The Department should, therefore, only make payments when it has assurance that services were received.

Physicians' fee-for-service claims submitted to the Department could be checked against the hospital records provided to the Department. This control could be incorporated into the computer system being developed for processing physician claims.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Department of Health - Claims from physicians for services performed at hospitals
>
> **Recommendation No. 30**
>
> It is recommended that the Department of Health verify physicians claims for services provided at hospitals with the records submitted by hospitals.

Hospitalization charges recoverable from The Workers' Compensation Board

The Department has not yet taken any action on the recommendation in my 1988-89 annual report (page 45) that the Department require hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board. At present, certain hospital costs which are recoverable from the Board are not identified, and therefore, not charged to the Board.

The Department already maintains certain claims data which could be used to identify instances where hospitals did not bill the Board for hospitalization charges. The result of these billings not being made is that the proper party does not bear the costs.

As this concern has not been resolved, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation :

Department of Health - Hospitalization charges recoverable from The Workers' Compensation Board

Recommendation No. 31

It is recommended that the Department of Health require hospitals to recover all amounts that are the responsibility of The Workers' Compensation Board.

Health unit funding

In my 1988-89 annual report (page 43), I recommended that the Department obtain sufficient information on the activities and programs of health units to determine appropriate funding levels for each unit.

I reported that it is only when each unit receives appropriate funding based on relevant information related to health programs and activities that the total funding provided to all units could be said to be appropriate. The development of information on the health status of the population and the development of health standards for each program would assist in resolving concerns raised.

I am pleased to note that the Department has organized a Health Status Indicators Working Group. The initial phase of establishing program standards and identifying health status indicators, which can be used to measure program success, is presently under way. The Department is also working on the identification of various funding models.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department continue its efforts to develop health status indicators and program standards for health units and continue to collect data regarding the programs delivered to determine appropriate funding levels for health units.

Health Care Insurance Fund
year ended March 31, 1990

Health care payments

The Department's systems for processing health care claims are still not satisfactory. Overpayments and under-recoveries continue to be made. These deficiencies were originally identified and reported five years ago. In my 1988-89 annual report, I reported my concerns on page 47.

Overpayments result from the inappropriate use of manual override codes by clerical staff, inappropriate application of the Schedule of Medical Benefits, and inadequate computerized validation of claims. Under-recoveries are caused by inadequate procedures to identify and recover claims that are the responsibility of The Workers' Compensation Board.

The Department's Internal Audit Branch audits a significant number of claims processed for payment. It estimates overpayments and under-recoveries of claims paid for the 1989-90 year to be approximately $4.2 million (1988-89 $6.1 million).

The Department is making changes to the present systems and is also developing a new health care claims payment computer system. However, the overpayments and under-recoveries continue to be significant. When accumulated over time, they represent cause for considerable concern. In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Health Care Insurance Fund - Health care payments

Recommendation No. 32

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health improve its systems in order to reduce inappropriate claim payments and to ensure that all claims that are the responsibility of The Workers' Compensation Board are recovered.

Reciprocal agreement

Without an agreement, the provision of services to residents of Saskatchewan may contravene the Alberta Health Care Insurance Act. Furthermore, the full amount owed by the Province of Saskatchewan is not being collected.

In my 1988-89 report (page 48), I recommended that the Department of Health complete the signing of reciprocal agreements with participating provinces and territories for the provision of services to non-residents. The Department has now signed agreements with all the provinces and territories except the Province of Saskatchewan.

The absence of an agreement with the Province of Saskatchewan has resulted in a dispute over the reimbursement of fees paid to Alberta practitioners providing services to residents of Lloydminster, Saskatchewan. The Fund pays practitioners at Alberta rates but the Province of Saskatchewan reimburses the Fund at lower Saskatchewan rates. Approximately $457,000 to June 30, 1990, which has been billed to the Province of Saskatchewan has not been collected.

In a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

Health Care Insurance Fund - Reciprocal agreement

Recommendation No. 33

It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health sign a reciprocal agreement with the Province of Saskatchewan for the provision of services to residents of that Province.

Alberta Blue Cross program administration costs

Alberta Blue Cross continues to administer a program on behalf of the Department under an agreement which expired in December 1982. The agreement provided that after December 1982, the agreement would be continued on a month to month basis. Payments are being made for expenses not provided for in the agreement.

In my 1988-89 report, my concerns were noted on page 48.

During 1989-90, the Fund paid approximately $11 million in administration costs to Alberta Blue Cross. This was an increase of 44% over the previous year, even though the number of registrant contracts administered by Alberta Blue Cross did not change significantly. Again, payments included certain expenses not specifically provided for in the agreement. For example, full reimbursement was made for the cost of a major computer system purchased during the year.

Accordingly, in a management letter to the Deputy Minister at the conclusion of the audit, I again made the following recommendation:

> Health Care Insurance Fund - Alberta Blue Cross program administration costs
>
> **Recommendation No. 34**
>
> It is recommended that, in relation to the administration of the Health Care Insurance Fund, the Department of Health revise its agreement with the Alberta Blue Cross Plan for services to be provided by the Plan.

Alberta Blue Cross program claims

The Health Care Insurance Fund has reimbursed Alberta Blue Cross for claims which are not valid.

The Fund provides additional health care insurance through Alberta Blue Cross for residents who are unable to obtain this coverage through an employer, and for qualified residents such as senior citizens, widows or widowers. Under this program, Alberta Blue Cross is reimbursed for claims paid on behalf of approved health care registrants. Registrants are provided with a Blue Cross card which they use to obtain services.

The Department does not check that claims from Alberta Blue Cross relate to registrants who were approved for such health services. As in previous years, Alberta Blue Cross was reimbursed for services provided to claimants who were not registered for this program.

These deficiencies were originally identified and reported five years ago. In my 1988-89 annual report, I reported my concerns on page 49.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve its procedures to ensure that reimbursements to the Alberta Blue Cross Plan are valid and relate only to registrants approved for the subsidized health care program.

Verification of claims for premium assistance

The Department's verification procedures for premium subsidies are deficient. This was originally reported to the Department of Health in 1985-86 and reported in my 1988-89 annual report on page 49.

Premium assistance of approximately $39 million was provided in the year ended March 31, 1990. Eligibility for premium assistance is based on applicants' taxable income in the preceding taxation year. The subsidy forms signed by registrants provide the Department with authority to confirm income with Revenue Canada.

The amount of premium assistance is significant and there is a risk of premium subsidies being granted to ineligible registrants.

In a management letter to the Deputy Minister at the conclusion of the audit, it was again recommended that the Department improve its procedures for approving premium assistance applications to minimize the risk of subsidies being provided to ineligible registrants.

Other entities

A financial audit of the **Alberta Alcohol and Drug Abuse Commission** was also completed for the year ended March 31, 1990.

HOSPITALS

The Provincially-owned hospitals and their related foundations, other than the Alberta Children's Hospital Foundation, operate under the authority of the Provincial General Hospitals, Cancer Programs, University of Alberta Hospitals and University Hospitals Foundation Acts. The financial statements of these Provincial corporations are not included in the Public Accounts, nor are the entities reflected in the consolidated financial statements of the Province. The Minister of Health, who is charged with the administration of the above Acts, is required to table annually copies of the audited financial statements of these hospitals.

Alberta Cancer Board

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the management and financial controls in place to administer the construction, upgrading and redevelopment project recently commenced at the W.W. Cross Cancer Institute.

Alberta Children's Provincial General Hospital

year ended March 31, 1990

Non-compliance with legislation

The Alberta Children's Provincial General Hospital has transferred property which the Alberta Children's Hospital Foundation has accepted in contravention of a Ministerial Order.

The Foundation is an incorporated society and is not a hospital foundation established under the Provincial General Hospitals Act. In order to function as a foundation for the benefit of the Hospital, section 30(2) of the Act requires the Foundation to obtain an exemption order by the Minister. The Minister made such an order in August 1986 and the order included the condition that no property of the Hospital may be transferred to the Foundation. However, the Hospital's donation revenue is being transferred to the Foundation. While the Hospital has authority to transfer its donation revenue, provided it ensures that any terms imposed by the donors are complied with, the Foundation is prohibited from accepting these transfers.

The Provincial General Hospitals Act provides an accountability framework for hospital foundations incorporated under it. However, the Foundation is not subject to the provisions of the Act governing the appointment of trustees, objects of hospital foundations, transfers of foundation property, payments, financial reporting to the Minister and other provisions creating accountability. I believe the present arrangement should therefore cease and the funds held by the Foundation should be returned to the Hospital.

In a management letter to the Hospital and the Department of Health at the conclusion of the 1989-90 audit, it was recommended that the Hospital and the Department of Health take action to ensure that transfers of property to the Alberta Children's Hospital Foundation comply with legislation.

Gift Shop

The Hospital's gift shop is operated without the benefit of policies and procedures for financial reporting and for control of shop operations.

The gift shop is staffed by Hospital volunteers. Its operations are not accounted for in the Hospital's financial statements. As at March 31, 1990, the shop's unaudited financial statements disclosed assets of approximately $85,000 and revenue for 1989-90 of over $100,000.

In a management letter to the President of the Hospital at the conclusion of the audit, I recommended that the Alberta Children's Provincial General Hospital establish adequate policies and procedures to control the gift shop operations.

Special purpose funds

The Hospital was unable to provide details of the source and nature of grants and donations revenue of approximately $1.7 million because its accounting system is not structured to provide this information.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital's accounting system be enhanced to provide information on the source and nature of special purpose funds grants and donations.

Foothills Provincial General Hospital

year ended March 31, 1990

Patient charges

The Hospital's system for billing patient charges is inadequate.

The Hospital loses significant amounts of revenue because not all billable patients are identified and sometimes incorrect billing rates are used. The Hospital's internal auditor using the Audit Office's PROBE audit software has identified at least $500,000 of unbilled patient charges. Also, billings made are not timely.

Improvements in the patient billing system would result in the collection of significant additional revenue.

In a management letter to the President of the Hospital at the conclusion of the audit, I made the following recommendation:

> Foothills Provincial General Hospital - Patient charges
>
> **Recommendation No. 35**
>
> It is recommended that the Foothills Provincial General Hospital improve its procedures over patient charges to ensure that all revenue is billed and collected.

Sharing of fee income

The Hospital and The University of Calgary do not have a formal agreement to provide for the sharing of amounts received under contracts with physicians. Also, there is inadequate information available to support amounts paid to and amounts received from the University.

In my 1988-89 annual report (page 53), I reported that most contracts between physicians, The University of Calgary and the Hospital specify a basic fee income. This figure represents the basic yearly maximum amount a physician is allowed to retain from billings to the Alberta Health Care Insurance Plan while under contract to the Hospital. Fees in excess of basic fee income are to be paid to the University by the physicians on a sliding scale. As well, the University charges physicians an administration fee of 15% of all basic fee income.

The Hospital and the University still do not have a formal agreement to provide for the sharing of fees in excess of basic fee income and for the income from administration fees charged to physicians under contract. Moreover, evidence to permit the Hospital to verify the completeness and accuracy of contract transactions is not adequate.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital and The University of Calgary develop a formal agreement for sharing of fees in excess of basic fee income and for sharing income from administration fees charged to physicians. It was also recommended that transactions under the agreement be properly supported.

Hospital management has indicated that a renegotiated agreement with the University, specifying the terms of income sharing, should be effective as of July 1991.

Budgetary process

The budget preparation process in the Hospital is not focused on clinical programs and activities.

The Hospital's budget is prepared on a Hospital department basis. However, budget information should also be available for amounts required by the various hospital programs and activities.

Budget information for clinical programs and activities would assist the Hospital in responding to adjustments in funding provided by the Department of Health and would help in evaluating hospital priorities.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital improve its budget preparation process by allocating budgetary resources according to clinical programs and activities.

Unrecorded inventories

The Hospital is not accounting for all of its inventories.

Inventories held by certain Hospital departments are not included in the Hospital's financial statements. Other inventories are determined at the end of February with no adjustment for purchases and usage during March. In order to determine the Hospital's expenditure correctly, all inventories at year end should be accounted for.

In a management letter to the President of the Hospital at the conclusion of the audit, it was recommended that the Hospital disclose in its financial statements all inventories held at the year-end.

Glenrose Rehabilitation Hospital

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the Hospital's project management system for the construction of the new rehabilitation unit.

University Hospitals Board

year ended March 31, 1990

In addition to the annual financial audit, my staff completed a review of the financial controls relating to the dentistry trust funds. These funds are included in the Special Purpose Funds of the Hospitals.

Dentistry Trust Funds

Accounting and control systems for the financial transactions of the dentistry trust funds are deficient.

Significant delays occur in dental service billings. There is no daily record of cash receipts and cash is not deposited regularly with the Hospitals' cashier.

A reconciliation of debtors accounts is not possible because there is no accounts receivable control account. Overdue accounts are not followed up.

A number of detailed recommendations for improving systems were made in a management letter to the President of the Hospitals at the conclusion of the audit. It is understood that action is being taken to deal with the deficiencies.

Foundations

My reports on the financial statements of the following Foundations for the year ended March 31, 1990, contained reservations of opinion because, as explained on page 118 of this report, the Foundations receive donation revenue which is not susceptible of complete audit verification:

Alberta Cancer Foundation
Alberta Hospital Edmonton Foundation
Northern Alberta Children's Hospital Foundation
University Hospitals Foundation

Other entities

Financial audits of the following were also completed for the year ended March 31, 1990:

Alberta Hospital Edmonton
Alberta Hospital Ponoka
Calgary Area Hospital Advisory Council Fund
Charles Camsell Provincial General Hospital
Edmonton Area Hospital Advisory Council Fund
Northern Alberta Children's Hospital

Department of Labour
year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to administer and enforce the Employment Pensions Act and Regulation.

Long-Term Disability Benefit Funds
year ended March 31, 1990

There are two long-term disability funds:

- Long-Term Disability Benefit Fund - Management, Opted Out and Excluded, and
- Long-Term Disability Benefit Fund - Bargaining Unit.

Controls over payments

Weaknesses in the controls exercised over payments from the Funds resulted in errors occurring, and remaining undetected for extended periods.

These two Funds are used to pay benefits to employees who are unable to work due to long-term illness or injury. One Fund is for management staff and the other for non-management staff.

Over a five year period, benefits totalling more than $150,000, which should have been paid from the Management Fund, were paid from the Bargaining Unit Fund. In addition, following a computer programming change, benefits totalling $87,200 were paid from the Funds, instead of from the Province's General Revenue Fund. Although the programming error was discovered and corrected promptly, the payment errors that had occurred were not rectified. These errors could have been prevented or detected if the Department had exercised better financial control.

Accordingly, in a management letter to the Public Service Commissioner at the conclusion of the audits, it was recommended that controls be improved to minimize the risk of benefit payments being charged to the wrong Funds, and to detect and correct any amounts wrongly charged.

Personnel Administration Office Revolving Fund
year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the financial systems used by the Department to process and report management information on the activities of the Fund.

Department of Municipal Affairs
year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the financial and management control systems used by the Department to administer the following grant programs:

- The Alberta Mortgage Interest Shielding Program
- The Alberta Family First Home Program
- The Seniors' Independent Living Program

Alberta Mortgage and Housing Corporation
year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the systems used by the Corporation to ensure that it collects and deposits promptly all cash due to it.
- Audits of the 1989-90 cost sharing claims under the National Housing Act (Canada) for the non-profit housing, rent supplement and rural and native home ownership and rental programs.

In my last three reports to the Legislative Assembly, I have commented on deficiencies in the management information available at the Corporation and the systems used by the Corporation to administer its mortgages and its land and housing investments.

The Corporation is undergoing a major re-organization and a review of its housing, mortgage, real estate, and land programs. Assets not required for program purposes are expected to be sold. Subsequent to March 31, 1990, the Corporation liquidated residential, non-profit and other special purpose program mortgages with a book value at March 31, 1990, of $768 million.

The 1989-90 audit revealed that progress has been made towards resolving the previously identified deficiencies. The Corporation plans to address these deficiencies through the development of new systems and has purchased computer hardware and software, including a data base and a general ledger package. However, until the proposed new systems are implemented, the deficiencies will remain. The following are the more significant deficiencies with respect to ongoing programs which have not yet been resolved.

Housing information systems

In my 1988-89 annual report (page 57), I commented that the information systems used by the Corporation to administer its housing programs are seriously deficient. The deficiencies have not yet been rectified.

Housing program assets held by the Corporation at March 31, 1990, were valued at $1,065 million.

The major components of the housing program's fixed assets, and their location, cost and expected useful lives are not recorded on any of the numerous housing systems maintained by the Corporation. As a result, information to consider the need for replacement or maintenance of fixed assets is not easily obtained.

Also, the large number of non-integrated systems cause inefficiencies and increased costs in transferring, checking and reconciling data between the systems.

In a management letter to the Corporation's President at the conclusion of the audit, I again made the following recommendation:

> Alberta Mortgage and Housing Corporation - Housing information systems
>
> **Recommendation No. 36**
>
> It is recommended that the Alberta Mortgage and Housing Corporation improve the systems used to provide information needed to manage its housing program assets, and eliminate inefficiencies in these systems.

Mortgage administration systems

In my 1988-89 annual report (page 58), I commented that the Corporation needs to improve the management information systems used by the Corporation to administer mortgages in the Core Housing Incentive Program and Modest Apartment Program.

The Corporation has undertaken to develop automated systems which will support the Core Housing Incentive Program and Modest Apartment Program mortgage portfolios. However, most of the planned enhancements have been delayed due to the present reorganization of the Corporation's operations.

The Corporation held 450 Core Housing Incentive Program and Modest Apartment Program mortgages at March 31, 1990, valued at $640 million. Approximately 300 of these mortgages have been in arrears for several years.

The inadequacies to be dealt with relate to the 1987 restructuring of the Core Housing Incentive Program and Modest Apartment Program mortgages. This has caused the Corporation to make manual adjustments in order to properly record mortgage repayments and mortgage balances on all restructured mortgages. Also, the legal documentation is incomplete for most of the restructured loans.

Accordingly, in a management letter to the Corporation's President at the conclusion of the audit, I again made the following recommendation:

Alberta Mortgage and Housing Corporation - Mortgage administration systems

Recommendation No. 37

It is recommended that the Alberta Mortgage and Housing Corporation improve the management information systems it uses to administer mortgages in the Core Housing Incentive Program and the Modest Apartment Program.

Land information systems

In my 1988-89 annual report (page 57), I reported that the information systems used by the Corporation to administer its land programs need improving. This is still the case.

Land held by the Corporation at March 31, 1990, was valued at $104 million.

Most of the problems are caused by recording land by project and not by individual lot. This impairs management's ability to manage and control its land inventories efficiently. For example, when lots are sold, gains and losses cannot be determined without performing complex and time consuming manual calculations.

Until the Corporation implements a land management system which provides the required cost and unit information, these deficiencies will remain.

In a management letter to the Corporation's President at the conclusion of the audit, it was again recommended that the Corporation develop and implement a land management system that will address its financial and management reporting needs.

Foreclosure guidelines

In my 1988-89 annual report (page 59), I recommended that the Alberta Mortgage and Housing Corporation develop and put in place comprehensive foreclosure guidelines to protect the Corporation's mortgage portfolio. I suggested that the Corporation needs formally approved procedures for ensuring that foreclosures proceed, or other approved action is taken, when mortgage loans fall seriously in arrears.

I am pleased to report that the Corporation has developed and obtained Board approval for formal foreclosure guidelines. The guidelines indicate the nature and timing of foreclosure procedures, the level of approval required when alternative action is taken and provide guidance on the action to be taken where guarantees have been provided by third parties.

However, the guidelines have not yet been implemented due to the organizational changes taking place at the Corporation. The Corporation has been advised that legal proceedings, such as foreclosures, should only be initiated when it has been decided who will administer the mortgages in future.

In a management letter to the Corporation's President at the conclusion of the audit, I again made the following recommendation:

> Alberta Mortgage and Housing Corporation - Foreclosure guidelines
>
> **Recommendation No. 38**
>
> It is recommended that the Alberta Mortgage and Housing Corporation implement comprehensive foreclosure guidelines as soon as possible to protect its mortgage portfolio.

Subsidized housing

The Corporation needs to ensure that reduced rental rates are provided only to qualified tenants.

The Corporation provides reduced rents to moderate and low income individuals and families. The Corporation's policies and procedures require that tenants in subsidized housing meet qualification standards and that the amount of rent charged should be based on a rent-to-income scale.

There were many instances where these procedures were not being followed. Tenants were not always required to sign an affidavit of gross household income. In some instances, the methods used to determine eligibility, or to determine the rents to be charged, were not correctly applied. Adequate supporting documentation on tenants' incomes and rent calculations was not always on file.

As a result, tenants occupying subsidized housing may not be entitled to all, or a part of, the assistance provided under the program.

In a management letter to the Corporation's President at the conclusion of the audit, it was recommended that the Corporation's policy for tenant income verification be complied with.

Metis Population Betterment Trust Account

year ended March 31, 1990

Legislative authorities

In my last six reports, I recommended that the Department resolve the various problems relating to non-compliance with, and inadequacies in, the Trust Account's legislative authorities.

The main problem, which existed throughout 1989-90, was the serious doubt as to the legality of the Trust Account. If the Trust Account was not legally constituted, all of its transactions lacked legislative authority. Another problem concerned the manner in which members were appointed and elected to the Boards of the eight settlement associations established under the Metis Betterment Act. In addition, the nature of the legislation cast doubt as to the legitimacy of honoraria paid to board members.

I am pleased to report that new legislation intended to resolve these concerns was proclaimed on November 1, 1990. At the same time, the

Metis Betterment Act and associated regulations and Orders In Council were repealed.

Other entities

Financial audits of the following were also completed:

Improvement Districts' Trust Account - year ended December 31, 1989
Alberta Planning Fund - year ended March 31, 1990
Metis Settlements Trust Fund - year ended March 31, 1990
Special Areas Trust Account - year ended December 31, 1989

Department of Public Works, Supply and Services

year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the procedures used by the Realty Division to value land and buildings held for resale by the Land Purchase Fund.

Other entities

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1990.

Department of Recreation and Parks

year ended March 31, 1990

Inappropriate financial reporting

In my 1988-89 annual report (page 61), I reported that the Department was not complying with established financial reporting policies in the treatment of certain revenues and expenditures. My concern has not yet been resolved.

Kan Alta Golf Management Ltd., present operator of the Kananaskis golf courses, contracted with the Department to construct two buildings on the golf courses. Kan Alta is recovering the costs of constructing those buildings by reducing the amount of rent it pays to the Province for leasing the golf courses. The rent and construction costs have not been reflected in the Province's financial statements.

For the current year, the reduction of rental revenue amounted to $138,600. To March 31, 1990, a total of $621,900 of revenues and $1,460,700 of expenditures have not been reported in the Province's financial statements. In addition, at March 31, 1990, the Province had an unrecorded liability to Kan Alta of $838,800.

Last year, the Department informed me that it was pursuing with the Treasury Department the possibility of reporting the amounts offset in the General Revenue Fund financial statements.

Since resolution of my concerns is ongoing, in a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department liaise with the Treasury Department to properly record its expenditures and rental revenues in the financial statements of the Province.

Overpayments

In my 1988-89 report (page 62), I recommended that the Department recover $635,000 paid to Kananaskis Village Resort Association in excess of contractual obligations.

The Department has not yet been able to finalize an agreement with the Association to recover this sum, but now believes a mutually satisfactory resolution of this matter can be achieved within the coming year.

In the interim, at the Minister's direction, an annual amount of approximately $58,000 will be held back from the Department's previously agreed funding contributions to the Association.

In view of this action, I am not repeating my recommendation.

Alberta Sport Council

year ended March 31, 1990

Financial statements

My report on the Council's 1989-90 financial statements contains a reservation of opinion because, as explained on page 118 of this report, the Council receives donation revenue which is not susceptible of complete audit verification.

The Recreation, Parks and Wildlife Foundation
year ended March 31, 1990

Non-compliance with legislation

In my 1988-89 annual report (page 62), I indicated that the Foundation was contravening the Recreation, Parks and Wildlife Foundation Act by paying travelling expenses, subsistence and remuneration to Board members from the Foundation's funds. I also reported that an amendment to the Act, which would allow these expenses to be paid from general Funds, was awaiting legislative approval.

The Act was not amended in 1989-90. During this period, the Foundation paid a further $60,000 to Board members. This brings to approximately $146,000 the total amount paid in contravention of the Act since I first reported this matter in my 1987-88 report.

Since the Foundation has not obtained an amendment to its Act, in a management letter to the Foundation's Chairman at the conclusion of the audit, it was recommended that the Foundation comply with the legislative requirements of the Recreation, Parks and Wildlife Foundation Act regarding the payment of expenses to Members of its Board.

Financial statements

My report on the Foundation's 1989-90 financial statements contains a reservation of opinion because, as explained on page 118 of this report, the Foundation receives donation revenue which is not susceptible of complete audit verification.

Other entities

A financial audit of the **Recreation and Parks Revolving Fund** was also completed for the year ended March 31, 1990.

Department of the Solicitor General

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used to predict and monitor manpower requirements, with particular focus on overtime, at the Fort Saskatchewan Correctional Centre.

Other entities

Financial audits of the following were also completed:

Alberta Racing Commission - year ended March 31, 1990
Alberta Liquor Control Board - year ended January 2, 1990
Motor Vehicle Accident Claims Fund - year ended March 31, 1990
Joint Standards Directorate - period ended March 31, 1990

Department of Technology, Research and Telecommunications

year ended March 31, 1990

In addition to the annual financial audit, my staff completed an examination of the systems used by the Department to monitor the activities of organizations and projects to which it provides financial assistance.

Monitoring financial assistance

The Department lacks co-ordinated and defined objectives and the systems needed to monitor properly the activities and ongoing status of organizations to which it provides assistance.

The Department provides assistance to organizations for research and technology projects in several ways. These include purchasing equity shares, making and guaranteeing loans, and providing other financial assistance. Generally, the assistance agreements require recipients to comply with certain conditions and, in some cases, the assistance is provided over extended periods.

As part of its responsibility for safeguarding the Province's investments, the Department monitors the activities of the organizations it assists. Without defined monitoring objectives, however, the extent and nature of, and sometimes the responsibility for, the monitoring needed is unclear. Such objectives and guidelines could help remove uncertainties by assigning responsibilities, and setting documentation and reporting standards. In addition, they could help Departmental staff select the procedures necessary to meet the Department's monitoring requirements for the various types of assistance provided.

Once monitoring procedures have been agreed upon for a project, the Department must record and report on the results obtained. Most of the current documentation on monitoring is contained in project files, but they are often incomplete. They contain details of assistance applied for and provided, and the conditions attached to the assistance, but they rarely provide a full history of the project. They often lack documentation on the project's progress and status, the monitoring performed, the information obtained from monitoring, and the reasons why additional assistance was provided.

The Department has started to develop a computer-based system to keep track of its monitoring activities. At the time of the audit, however, parts of the system were still in the design stage and some of the information it contained was incomplete or outdated.

In a management letter to the Deputy Minister at the conclusion of the audit, I made the following recommendation:

Department of Technology, Research and Telecommunications - Monitoring financial assistance

Recommendation No. 39

It is recommended that the Department of Technology, Research and Telecommunications define its objectives and responsibilities for monitoring the activities and ongoing status of the organizations and projects to which it provides assistance. It should then improve the systems and procedures it uses to monitor those activities.

Evaluating funding proposals

There is still scope for improving the process used by the Department to evaluate funding proposals.

The Department provides funding in excess of $25 million each year for the development and commercialization of advanced technology. In my 1988-89 annual report (page 69), I expressed concern about the quality of the information contained in some funding proposals. I recommended that the Department subject all funding proposals to its evaluation process, and issue a policy and procedures manual containing guidance for staff involved in the process.

Since then, the Department has issued a procedures manual. It prescribes the information that evaluation reports should contain, but lacks guidance on how it should be used to evaluate proposals. In addition, the computer system, which is a component of the evaluation process, is not being used by all staff.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department expand its procedures manual to provide guidance to staff on the conduct of funding proposal evaluations, and ensure that all staff use the computer system when evaluating proposals.

Alberta Heritage Foundation for Medical Research

year ended March 31, 1990

In addition to the annual financial audit, I issued an auditor's report on the separate financial statements of the Medical Innovation Program and the Foundation's compliance with the terms of the agreement under which it administers the Program.

Chembiomed Ltd.

year ended March 31, 1990

Accounting records and procedures

In my 1988-89 annual report (page 70), I commented on deficiencies in the Company's accounting records and financial control procedures. At the conclusion of the 1988-89 audit, I made a number of detailed recommendations which, in summary, urged management to take action to address the observed deficiencies.

I am pleased to report that the Company has since strengthened its financial management and has eliminated substantially all of the previously reported concerns. The management letter issued at the conclusion of the 1989-90 audit contained no significant recommendations for improvement.

The Alberta Government Telephones Commission

year ended December 31, 1989

In addition to the annual financial audit, the following work was completed:

- An examination of the controls over the development, testing and conversion of the Message Processing System.

- Audits of the financial statements of the Commission's wholly-owned subsidiary companies:

  Alta Telecom International Ltd.
  Alta Telecom Inc.
  Alta Telecom Licensing Corporation
  Alta-Can Telecom Inc.
  NovAtel Communications Ltd.
  288922 Alberta Ltd.

- Audits of "Schedules of Building Operating Costs" for the year ended December 31, 1989 for distribution to tenants who lease space in the Commission's buildings.

- A further examination of the systems designed to:

  - control the acquisition and use of microcomputers,
  - ensure security over computer hardware and corporate data,
  - assist in business recovery and continuity in the event of a disaster,
  - ensure the proper use of electronic signatures and approvals by Commission staff and management, and
  - control the transfer of costs of resources among the divisions.

Since completion of the audit, the Commission's operations have been privatized. Having received satisfactory responses to concerns raised in my management letter, I am not reporting any findings in this annual report.

The Alberta Government Telephones Employees' Pension and Death Benefit Fund

year ended December 31, 1989

In addition to the annual financial audit, my staff completed an audit of a Schedule of Operating Costs for the year ended December 31, 1989 for distribution to a tenant who leases a building from PBX Properties Ltd., a company owned by the Pension Fund.

Other entities

Financial audits of the following were also completed:

Alberta Research Council - year ended March 31, 1990
The Alberta Educational Communications Corporation - year ended March 31, 1990
Alberta Electric Energy Marketing Agency - year ended March 31, 1990
The Alberta Government Telephones Employees' Group Life Insurance Trust Account - year ended December 31, 1989
The Alta Telecom International Employees' Group Life Insurance Trust Account - year ended December 31, 1989
The Alta Telecom International Employees' Pension and Death Benefit Fund - year ended December 31, 1989

Department of Tourism

year ended March 31, 1990

None of the matters reported to management at the conclusion of the Department's annual financial audit were selected for inclusion in this report.

Other entities

An annual financial audit of the **Alberta Tourism Education Fund** for the year ended March 31, 1990 was also completed.

Department of Transportation and Utilities

year ended March 31, 1990

In addition to the annual financial audit, the following work was completed:

- An examination of the systems for planning, monitoring, developing and implementing information systems projects.
- An examination of the systems used by the Motor Transport Board to comply with the requirements of the Motor Transport Act, and also of the systems used to provide members with information they require for decision making.

Payments to information systems project contractors

Payments to contractors for systems development are based on a per diem rate and are not based on the extent of work completed.

Contracts between the Department and systems development contractors provide for payments on a per diem basis. This has resulted in payments being made without the Department receiving the required services.

In one case, the Department paid the developer in full four months before the work was completed. The developer received final payment in February 1990 on the contracts for delivery of part of a major system even though the work was not completed until June 1990. In another case, a developer received full payment of $486,000 by August 1989 for a project on which the work was not complete. In January 1990, the developer went out of business and defaulted on the remaining work. This delayed implementation of the system and also resulted in increased external costs to the Department of $19,500.

Making full payment to a developer before a project is complete increases the risk of non-performance by reducing the incentive to complete the project.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that in future systems development contract payments be based on the extent of work completed.

Information systems project management

The Department's methods and organization used to develop and implement information systems should be improved.

The Information Systems Branch is represented on 54 committees. This level of representation appears onerous. The Department needs to review whether such representation is an effective use of limited resources. In addition, the responsibilities of the Branch staff members on these committees need to be clarified to ensure that the staff is being used effectively. For some major systems being developed, it was noted that the Director of the Information Systems Branch was not on the steering committees even though his Branch is responsible for the success of these systems.

The participants in most major systems development projects have not had their responsibilities clearly defined. For example, significant changes to the scope of one major project were made without evidence of approval. On another system, the project leader accepted no response to a request for acceptance as signifying the acceptance of the work done. On that particular system, the project leader did not understand the roles of some committee members because their roles had not been clearly defined. Certain committee members contacted by the Audit Office indicated that they had lost touch with the project.

The users of new systems also have to assist systems developers in planning, designing, testing, documenting, and implementing the systems. Therefore, development plans need to identify when and how much user time is needed. In a review of four project plans, three did not adequately plan for user resources required for conversion and acceptance testing. As a result, implementation of a phase of one system was delayed because user resources were not available for acceptance testing. Lack of resources for conversion activities on a phase of another system caused delays. The delays resulted in the system going into production after the expiration of the 90 day warranty period provided by the outside contractor.

Clearly defining the responsibility for planning, approval and monitoring, is essential to the success of information systems projects.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department strengthen information systems project management by clarifying staff responsibilities, improving the planning of acceptance testing, and reviewing committee structures.

Alberta Motor Transport Board - non-compliance with legislation, and information to discharge mandate

The Alberta Motor Transport Board is delegating some of its responsibilities without legislative approval. Also, the Board does not have information on past decisions to assist in consistent decision making.

The Board, created under the Motor Transport Act, determines transportation policies and Regulations. Board members consider approximately 60 to 80 items at a one to two hour weekly meeting. Their decisions include the issuing of operating authority certificates and permits, and the granting of exemptions from Board Regulations and policies. The Board also ratifies decisions made by its Secretariat.

The Board has delegated to the Chairman, and in the Chairman's absence to the Board Secretary, authority to make decisions for the suspension, revocation, and amendment of certificates and authority to make enforcement decisions. Such decisions are made therefore without the approval of the Board. The Act requires these decisions to be made by the Board or, in the case of applications, by a panel of Board members. It does not allow further delegation of this authority. Also, Departmental and Board employees are providing administrative services without a written delegation of authority as required under the Act.

Board decisions are not recorded in an information system which could provide a history of past decisions. Providing precedents to the Board could assist it in achieving consistent decisions.

An information system containing a history of Board decisions would also provide evidence of a need to review policies and Regulations because of the frequency of requests for exemptions.

In a management letter to the Deputy Minister of Transportation and Utilities at the conclusion of the audit, it was recommended that the Alberta Motor Transport Board comply with all requirements of the Motor Transport Act, and that its systems and procedures be strengthened to provide the Board with the information needed to discharge its mandate.

I have been informed that the Department has started to deal with my concerns.

Alberta Resources Railway Corporation

year ended December 31, 1989

Reservation of opinion

The Auditor's Report on the financial statements of the Alberta Resources Railway Corporation for the year ended December 31, 1989, contained a reservation of opinion as follows:

> "Under the terms of an Agreement between Canadian National Railway and the Corporation, Canadian National Railway is required to pay a tonnage rental to the Corporation based on the amount of revenue freight carried over the Corporation's railway. The Corporation relies on the reports by Canadian National Railway as to the nature and amount of revenue freight to determine the tonnage rentals payable under the Agreement and has been satisfied that there is no useful and economical means available to check the accuracy of such reports. Therefore, my verification of tonnage rental revenue of $4,306,012 was limited to the amounts reported to the Corporation. Accordingly, I am unable to determine whether any adjustments to tonnage rental revenue, operation loss, assets and liabilities are required."

This reservation of opinion was necessary because the scope of my audit was limited. I was unable to determine that the tonnage rental revenue recorded in the financial statements was complete.

Rural Electrification Revolving Fund

year ended March 31, 1990

Conditional grant payments

The disclosure of $29 million of advances as assets of the Fund is not appropriate.

In my 1986-87 and 1987-88 annual reports, I noted that the Fund's reported assets included advances provided under Part 2 of the Rural Electrification Revolving Fund Act. I explained that these advances are accounted for as loans because they are so designated by legislation, but they are only repayable in certain circumstances or if certain events occur. Accordingly, these advances may in substance be conditional grant payments which should not be assets of the Fund.

The Department, in consultation with the Treasury Department, has determined that these advances are unlikely to be repaid.

Advances of approximately $29 million accumulated to March 31, 1990, are still reported as assets of the Fund in the Other Regulated Funds, Summary Financial Statements, included in the Public Accounts. In the General Revenue Fund, which includes the financial assets and liabilities of revolving funds, an allowance for non-payment of the advances has been made.

As of April 1, 1990, new payments under this Program are recorded as conditional grants and not as advances.

In a management letter to the Deputy Minister at the conclusion of the audit, it was recommended that the Department of Transportation and Utilities liaise with the Treasury Department to determine the most appropriate method of disclosing funds advanced prior to April 1, 1990, under part 2 of the Rural Electrification Revolving Fund Act.

Given that the advances made prior to April 1, 1990, are unlikely to be repaid, and because an allowance for non-payment of the advances has been made in the General Revenue Fund financial statements, it may be appropriate for the Departments to seek a write off of the advances under section 27(1) of the Financial Administration Act. Whether or not the advances are written off, they should not be shown as an asset with a value of $29 million in the financial statements of the Rural Electrification Revolving Fund.

Other entities

Financial audits of the following were also completed:

Gas Alberta Operating Fund - year ended March 31, 1990
Natural Gas Rebates Fund - year ended March 31, 1990
Transportation Revolving Fund - year ended March 31, 1990

The irrigation districts are independently incorporated with no direct accountability to the Legislative Assembly. Accordingly, their audited financial statements are not published in the Public Accounts of the Province.

The financial statements of the fourteen irrigation districts were audited to various year-ends within the 1989-90 fiscal year:

Aetna Irrigation District
Bow River Irrigation District
Eastern Irrigation District
Leavitt Irrigation District
Lethbridge Northern Irrigation District
Macleod Irrigation District
Magrath Irrigation District
Mountain View Irrigation District
Raymond Irrigation District
Ross Creek Irrigation District
St. Mary River Irrigation District
Taber Irrigation District
United Irrigation District
Western Irrigation District

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1989-90 fiscal year, the Auditor General acted as auditor of the following organizations:

ACCESS Charitable Foundation of Alberta
Alberta Children's Hospital Research Centre
Charles Camsell Provincial General Hospital Volunteer Association
Foothills Hospital Employees' Charity Fund
Foothills Hospital Foundation
Glenrose Rehabilitation Hospital Employee Benevolent Fund
Glenrose Rehabilitation Hospital Employee Charities Fund
Grande Prairie Regional College Foundation
Olds College Foundation
Sulphur Development Institute of Canada (SUDIC)
The Friends of University Hospitals
The Trustees of the Academic Staff Benefits Plans of The University of Alberta
University of Alberta Hospitals Staff Benevolent Fund
University of Alberta Hospitals Staff Charities Fund

Financial statements

My reports on the financial statements of:

Foothills Hospital Foundation,
Grande Prairie Regional College Foundation, and
Olds College Foundation

contained reservations of opinion because, as explained on page 118 of this report, they receive donation revenue which is not susceptible of complete audit verification.

Reporting process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

At the conclusion of all audits, meetings (exit conferences) were held to discuss audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of the Audit Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management understood the audit findings, to discuss recommendations for corrective action, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by the Audit Office, thereby minimizing the risk of misunderstanding concerning observations raised and action promised.

Audit observations and recommendations judged to be of concern to senior management were incorporated into management letters to the responsible deputy minister or senior executive officer. Copies of management letters were forwarded to the appropriate minister, except for those addressed to the health related Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Subsequently, the observations and recommendations considered important enough to be reported to the Legislative Assembly were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee, and all ministers and deputy ministers or chief executive officers were informed of observations contained in the report that relate to areas for which they are responsible.

The Provincial Treasurer on behalf of the government has prepared a report, dated December 1990, addressed to the Standing Committee on Public Accounts which contains responses to the numbered recommendations in my report for the 1988-89 fiscal year.

Reservations in audit reports on financial statements

Section 19(2) of the Auditor General Act requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements. For 1989-90, twelve such reservations were issued; viz:

Ten reservations of opinion were because the financial statements of:

- Alberta Cancer Foundation,
- Alberta Hospital Edmonton Foundation,
- Alberta Sport Council,
- Foothills Hospital Foundation,
- Glenbow-Alberta Institute,
- Grande Prairie Regional College Foundation,
- Northern Alberta Children's Hospital Foundation,
- Olds College Foundation,
- The Recreation, Parks and Wildlife Foundation, and
- University Hospitals Foundation

include donation revenue which cannot be audited for completeness in accordance with generally accepted auditing standards.

These reservations of opinion do not reflect adversely on the records or financial statements of the above entities. Rather, they are a product of the nature of the revenue. For most types of revenue, an auditor can calculate or anticipate the completeness of recorded revenue by reference to the auditee's records, or by independent verification. Where donations and certain other types of revenue are received from the public in significant or potentially significant amounts, however, auditors can often do no more than examine the amounts that are recorded as received. They cannot verify that all such revenue received has been recorded.

In these circumstances, generally accepted auditing standards require auditors to express a reservation of opinion on the financial statements by drawing attention to the nature of the revenue and describing the limited audit work that was possible.

One reservation of opinion was because the financial statements of the Alberta Heritage Savings Trust Fund are not prepared in accordance with acceptable accounting principles. As discussed more fully on page 19 in section 2 of this report, the practice of including deemed assets, and deemed equity represented by deemed assets, on the Heritage Fund's balance sheet is not appropriate, nor is the presentation in accordance with generally accepted accounting principles. Deemed assets are not assets of the Heritage Fund.

One reservation of opinion was because, as discussed more fully on page 113, the financial statements of the Alberta Resources Railway Corporation contained revenue which it was not possible to audit in accordance with generally accepted auditing standards.

In all other cases, I was able to report without reservation that the financial statements examined present fairly the financial position of the entities at March 31, 1990, or such other accounting period ended within the year ended March 31, 1990, and the results of their operations and the changes in their financial position for the period covered by the statements, in accordance with generally accepted accounting principles or other appropriate disclosed basis of accounting.

Audit of the Public Accounts

The Public Accounts of the Province are published in one volume. The volume contains, together with the Auditor General's reports thereon, the consolidated financial statements of the Province of Alberta, the financial statements of the General Revenue Fund, details of expenditures and revenues by department, and the financial statements of revolving funds, regulated funds and Provincial agencies. Some other statements and reports are included to comply with the Financial Administration Act and other statutes.

The Auditor General's report on the Province's 1989-90 consolidated financial statements was as follows:

AUDITOR'S REPORT

To the Members of the
Legislative Assembly

I have examined the consolidated statement of reported assets, liabilities and net assets of the Province of Alberta as at March 31, 1990 and the consolidated statements of revenue and expenditure and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Province of Alberta as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, as described in Note 1 to the consolidated financial statements, applied on a basis consistent with that of the preceding year.

Donald D. Salmon, FCA
Auditor General

Edmonton, Alberta
October 12, 1990, except as to Notes 4(c), 6
and 7 which are as of January 15, 1991

The above report covers the consolidated financial statements of the Province. A similar auditor's report was issued (see section 2 of the Public Accounts) on the financial statements of the General Revenue Fund and the detailed information of departmental expenditures and revenues (see section 3 of the Public Accounts). The volume of supplementary information containing details of expenditure by payee is not covered by these reports since it is not an integral part of the Public Accounts.

The above Auditor's Report is the culmination of most of the financial audit work done each year by the Audit Office. It covers the 1989-90 audits of the various consolidated entities. These include the General Revenue Fund, the Alberta Heritage Savings Trust Fund and approximately ninety-five Provincial agencies and other funds.

Additionally, the Audit Office performs annual audits of the universities, colleges, technical institutes, hospitals, irrigation districts and trust funds of which the Auditor General is auditor.

Consolidation methods

The consolidated financial statements of the Province are an aggregation of most, though not all, of the entities administered and owned by the Province of Alberta. They combine the operating results and financial positions of the Province's General Revenue Fund, the Alberta Heritage Savings Trust Fund and the other entities whose financial statements are published in sections 4 through 7 of the Public Accounts.

The consolidation, however, does not include the Provincially-owned universities, colleges, technical institutes, hospitals and related funds.

The 1989-90 consolidated financial statements published by the Province report on its financial condition and results of operations. They serve as a principal means of communicating financial information to those not involved in the Province's financial administration.

The financial statements of the General Revenue Fund are sometimes inappropriately used for reviewing the Province's overall financial condition and operating results. Note 4 to the General Revenue Fund financial statements points out that the Fund does not include deficits incurred by Provincial agencies, regulated funds and commercial enterprises. For this reason, the consolidated financial statements are more appropriate for reviewing the Province's financial affairs.

The Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants, known as PSAAC, is working to improve public sector financial reporting practices. The Province is, therefore, reporting on its financial condition and operating results in a world of evolving standards. What was accepted until recently is being debated today and will likely be improved upon tomorrow. For example, PSAAC will be considering how physical assets should be accounted for by governments and what information should be reported in their financial statements. PSAAC has recently released a Statement on Accounting for Government Transfers. Government transfers are one of the largest expenditure and revenue items reported in government financial statements. 40-60% of the federal and provincial governments' expenditures are transfers to individuals, local governments, institutions or other organizations.

The consolidated financial statements show that for the 1989-90 fiscal year, the Province recorded a consolidated net expenditure, that is an annual deficit of $2,339 million (1988-89 $2,015 million). They also show that at March 31, 1990, the consolidated net assets of the Province were $2,728 million (March 31, 1989 $5,067 million).

The consolidation does not include the financial statements of the Provincially-owned universities, colleges, technical institutes, and hospitals. If the recorded net assets (excluding fixed assets) of these entities were included in the consolidation, the Province's net assets at March 31, 1990 would be increased by approximately $193 million. In my view, which PSAAC supports, these entities should be included in the consolidation.

In addition, most of the Province's fixed assets are excluded from the consolidation. This means that the net assets at March 31, 1990, do not include the value of land (except that held for rental and resale), buildings, equipment, fixtures and furniture owned by the Province, or the renewable and non-renewable resources. Similarly, the net assets do not include the value of inventories of consumable supplies and materials at March 31, 1990. The effect of these accounting policies is that the costs of fixed assets and consumable inventories are treated as expenditures in the fiscal years in which they are acquired, rather than in the years in which they are consumed or the benefits from their acquisition are realized.

Regardless of the valuation method used, it is obvious that including all of the Province's assets in the consolidated statements would increase significantly the Province's net assets at March 31, 1990.

Another accounting policy that has significant impact on the net assets is the method used to account for the Province's pension plan liabilities. As explained on page 6 of this report, the unrecorded portion of the pension plan liabilities is disclosed in a note to the consolidated financial statements. Hence, it is not included in the computation of the net assets. Depending on the assumptions made in calculating the liability, including the full liability for pension plan obligations would change the Province's net assets at March 31, 1990 by approximately $9 billion.

Consolidated operating statistics

The Province's consolidated operating results for the three years ended March 31, 1990 were as follows:

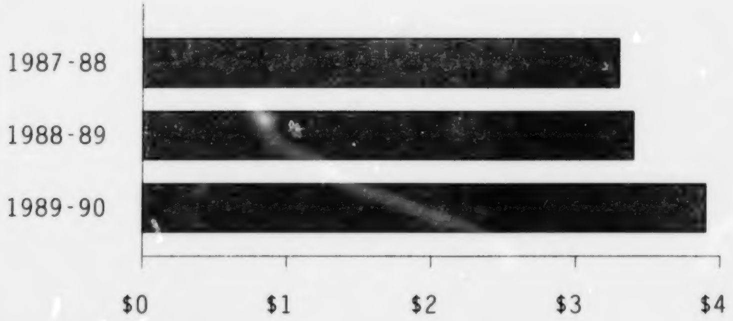
	1987-88	1988-89	1989-90
		(Millions of Dollars)	
Revenue	$11,322	$11,228	$12,119
Expenditure	12,737	13,243	14,458
Annual deficit	(1,415)	(2,015)	(2,339)
Net assets at beginning of year	8,497	7,082	5,067
Net assets at end of year	$ 7,082	$ 5,067	$ 2,728

Consolidated revenue comprises:

	1987-88	1988-89	1989-90
Taxes	$ 3,384	$ 3,415	$ 3,919
Non-renewable resource revenue	2,630	2,085	2,240
Payments from Government of Canada	1,861	2,080	1,887
Investment income	1,848	1,834	1,891
Fees, permits and licenses	601	651	720
Net profits from commercial operations	317	434	391
Other	681	729	1,071
	$11,322	$11,228	$12,119

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated revenue during the three years ended March 31, 1990:

Taxes

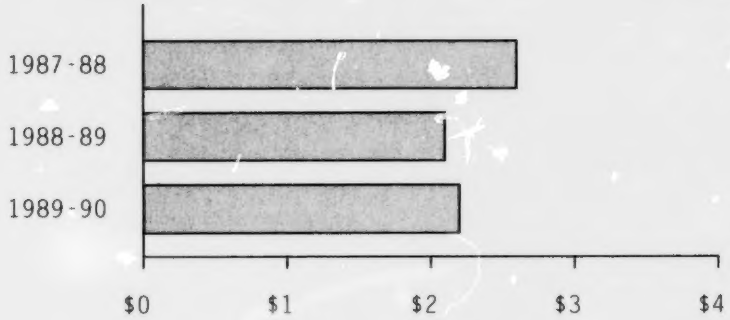


Billions of Dollars

Tax revenue increased by $504 million or 14.8% in 1989-90 compared to the previous year.

The main reason for the 1989-90 increase was an increase of $497 million in personal income tax.

Non-Renewable Resource Revenue

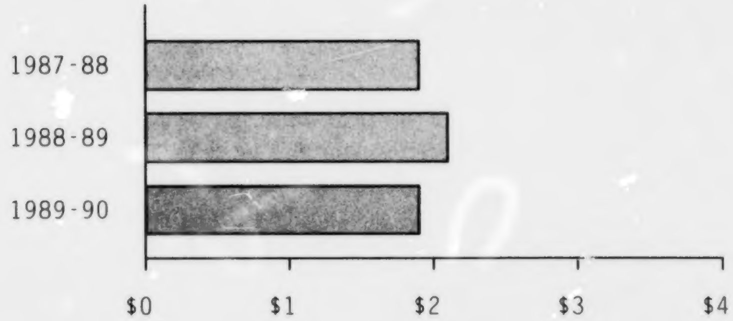


Billions of Dollars

Non-renewable resource revenue increased by $155 million or 7.4% in 1989-90 compared to the previous year. The main reasons for the 1989-90 increase were:

- crude oil royalty increased by $193 million. The increase was due to an average oil price increase of $4.00 per barrel as compared to the previous year. This increase was offset by a 8.5% reduction in production.
- bonuses and sales of Crown leases decreased by $60 million due to an average decrease of $11.00 in the price per hectare from 1989 to 1990, and a decrease of 192,573 hectares sold in 1990, as compared to the previous year.

Payments from the Government of Canada

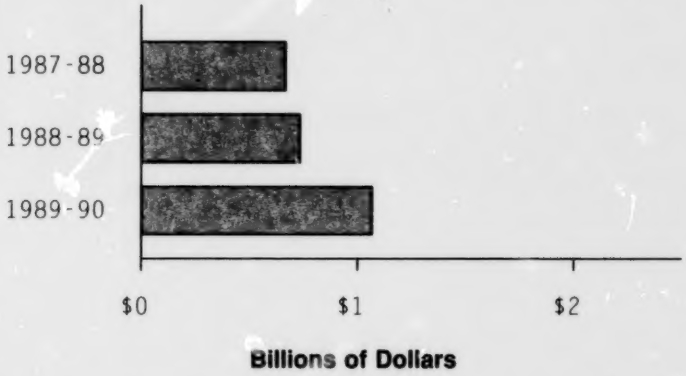


Billions of Dollars

Payments from the Government of Canada decreased by $193 million or 9.3% in 1989-90 compared to the previous year. The main reasons for the 1989-90 change were:

- a decrease of $94 million relating to Established Programs Financing because of changes in gross national product and tax transfer points that affect the allocation.
- an amount of $75 million was accrued as receivable at March 31, 1989, to reflect the receipt from the Federal government after the year end of the first instalment against Alberta's claim of $539 million for fiscal stabilization for the 1986-87 fiscal year. In 1990 no accrual was made.

Other



Other revenue increased by $342 million or 46.9% in 1989-90 as compared to the previous year.

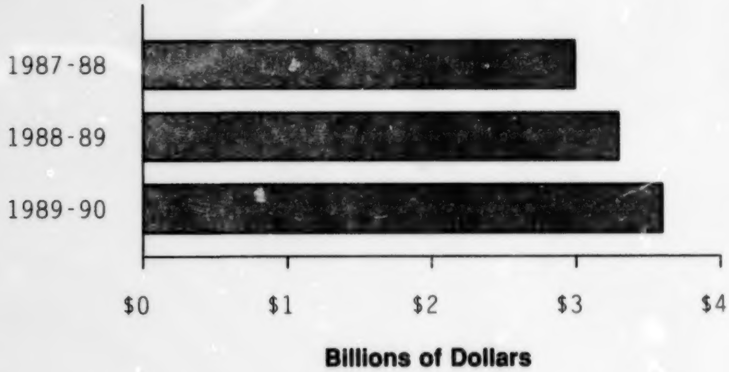
The main reason for the 1989-90 increase was the creation of the Lottery Fund in 1990 which resulted in an increase of $283 million in net proceeds from lottery operations. The increase includes $232 million of net proceeds held by the Western Canada Lottery Corporation on behalf of the Province at the time that the Lottery Fund was established which was subsequently transferred to the Fund.

Consolidated expenditure comprises:

	1987-88	1988-89	1989-90
		(Millions of Dollars)	
Health	$ 3,027	$ 3,329	$ 3,602
Education	2,645	2,711	2,821
Resource conservation and economic development	1,516	1,554	1,689
Social services	1,359	1,434	1,502
General government:			
Debt servicing costs	382	559	850
Other	620	584	577
Transportation and utilities	1,176	1,150	1,044
Regional planning and development	813	841	840
Protection of persons and property	461	456	563
Recreation and culture	205	190	277
Environment	175	223	266
Valuation adjustments	236	103	273
Housing	122	109	154
	$12,737	$13,243	$14,458

The following charts and comments illustrate and explain some of the more significant variances and trends in the Province's consolidated expenditure during the three years ended March 31, 1990.

Health

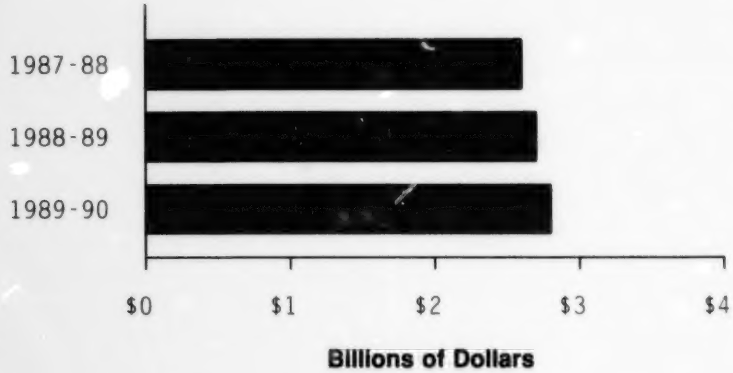


Health expenditure increased by $273 million or 8.2% in 1989-90 compared to the previous year.

The main reasons for the 1989-90 increase were:

- operating grants for Financial Assistance for Active Care and for Long-Term Care increased by $118 million (7.5%) and $36 million (10.5%), respectively. Increased operating grants were required to cover inflationary increases for existing programs and operations of hospitals. Recent capital construction completion also resulted in increased operating costs.
- expenditures of the Health Care Insurance Fund increased by $100 million (10.8%). Medical service utilization and fee increases were the major cause of this increase.

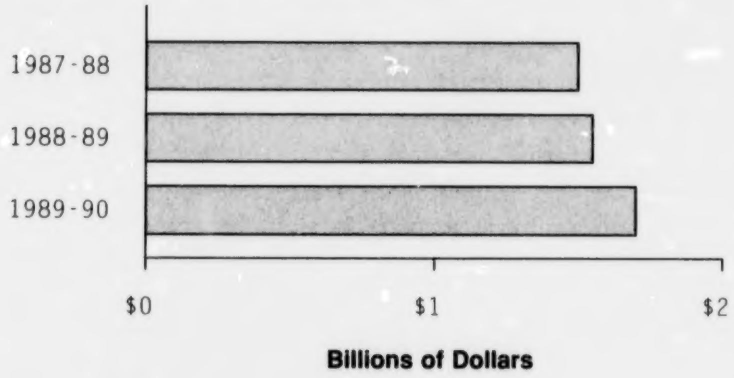
Education



Education expenditure increased by $110 million or 4.1% in 1989-90 compared to the previous year.

The main reason for the 1989-90 change was a $103 million or 8.4% increase in financial assistance to school boards.

Resource Conservation and Economic Development

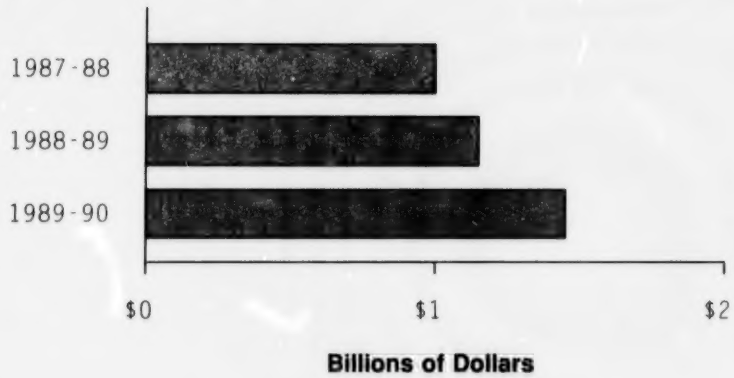


Resource conservation and economic development expenditure increased by $135 million or 8.7% in 1989-90 compared to the previous year.

The main reasons for the 1989-90 increase were:

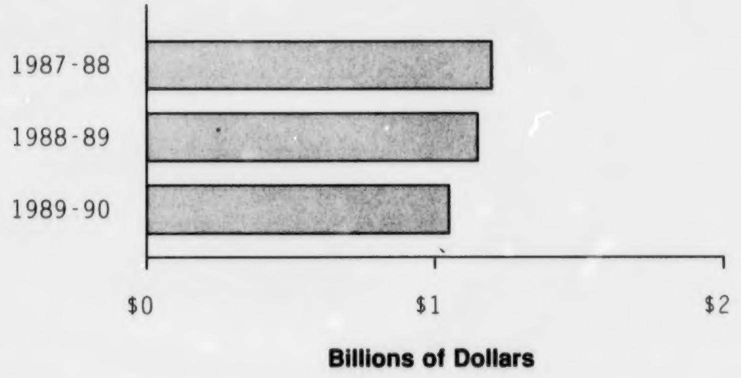
- farm fuel distribution allowance program expenditure increased $46 million (53%) because of an increase of 5 cents a litre for diesel fuel and an increase in the volume of farm fuel purchases.
- Farm Credit Stability Fund expenditure increased $44 million (34%).
- expenditure of $35 million for financing the purchase of the indebtedness owed to Lloyds Bank by Gainers Inc.

General Government



General government expenditure increased by $284 million or 24.8% in 1989-90 compared to the previous year. The main reason was an increase in debt servicing costs of $291 million.

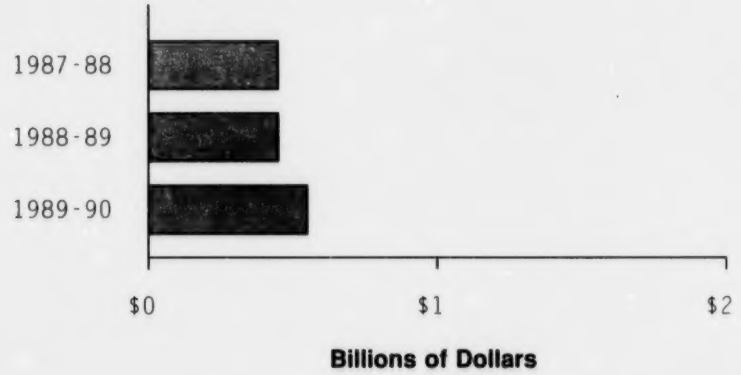
Transportation and Utilities



Transportation and utilities expenditure decreased by $106 million or 9.2% in 1989-90 compared to the previous year.

The main reason for the reduction was a decrease in grants of $101 million made by the Utility Companies Income Tax Rebates Fund.

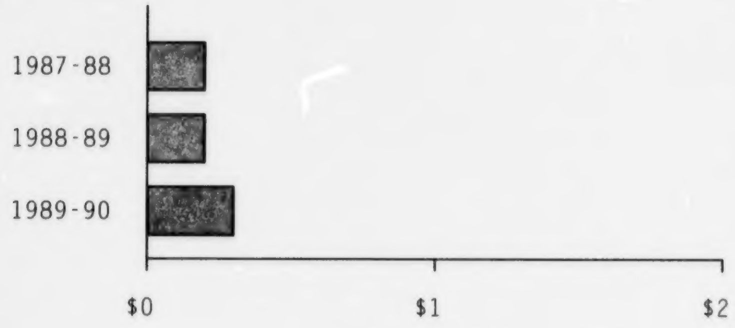
Protection of Persons and Property



Protection of persons and property expenditure increased by $107 million or 23.5% in 1989-90 compared to the previous year.

The main reason for the increase was the settlement of $75 million given as grants to investors in the Principal Group of companies.

Recreation and Culture

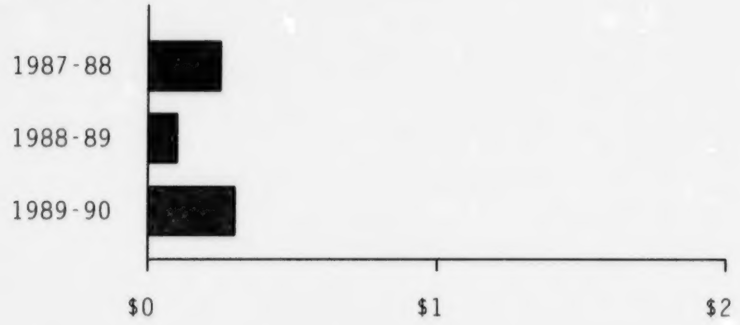


Billions of Dollars

Recreation and culture expenditure increased by $87 million or 45.8% in 1989-90 compared to the previous year.

The main reason for the increase was the expenditure of $73 million by the newly created Lottery Fund. Previously, disbursements of net lottery proceeds made on behalf of the Province were not included in consolidated expenditure.

Valuation Adjustments



Billions of Dollars

Valuation adjustments increased by $170 million or 165% in 1989-90 compared to the previous year. The main reason for this was an increase in the provision for doubtful accounts and loans of the General Revenue Fund of $72 million and an increase in the provision for losses on the mortgages and loans of the Alberta Mortgage and Housing Corporation of $55 million.

CHARTS

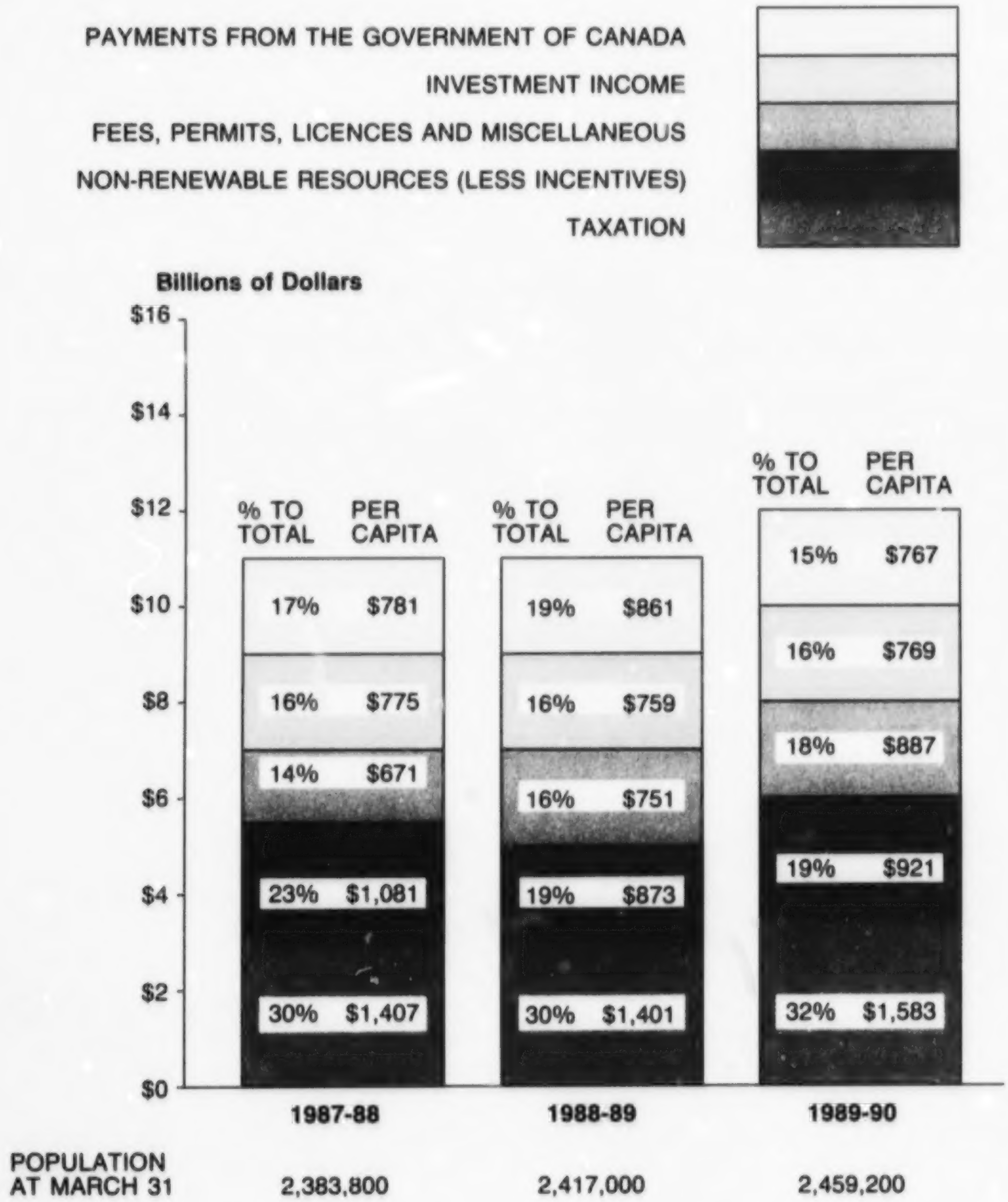
The financial information in the public accounts is displayed in a way that satisfies the prevailing legislation and is in accordance with acceptable government reporting practices. The following charts display some of the same financial information in an alternative and simplified manner, and are included in this report pursuant to subsection 19(3)(b) of the Auditor General Act.

In preparing the charts, some revenues and expenditures have been grouped on a generic basis rather than on the basis used in the public accounts. For example, in the charts, freehold mineral tax is included in non-renewable resource revenue, whereas in the public accounts it is included in tax revenue. Non-renewable resource revenue (net) in the charts is the revenue after deducting costs under the various incentive programs that can be said to relate to the generation of that revenue, viz. royalty tax credits and rebates, petroleum incentive program grants, and geophysical and exploratory drilling incentives. In the public accounts, royalty tax rebates are reflected as deductions from tax revenue, while some costs under the other incentive programs are reflected as resource conservation and economic development expenditures.

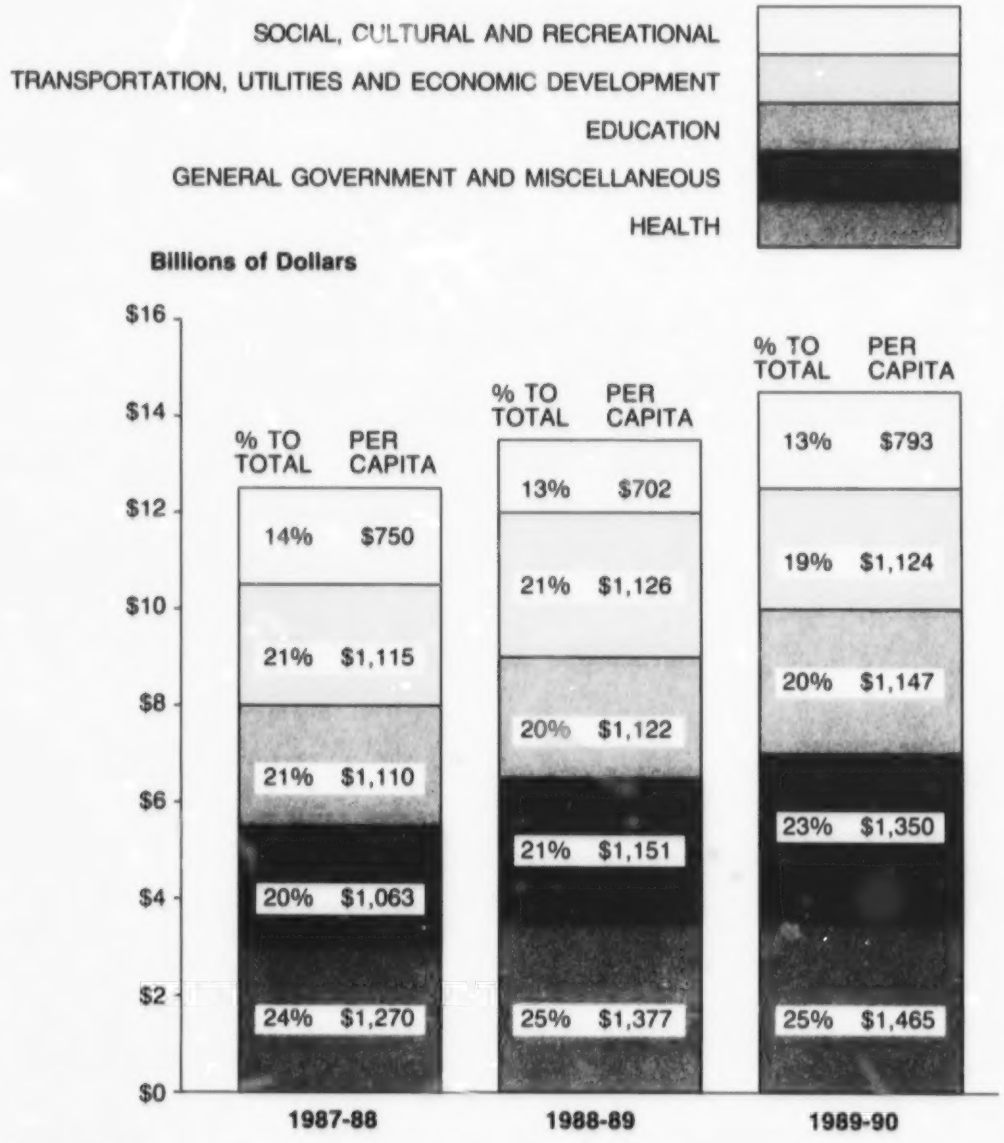
Prior years' figures have been reclassified where necessary to conform to the 1989-90 presentation.

Population figures in the charts are per the Alberta Bureau of Statistics. The figures at March 31, 1988, 1989, and 1990, are postcensal estimates.

The following chart shows consolidated revenue by major groups, the percentage of such revenue to total consolidated revenue, and revenue per capita, for the past three years.

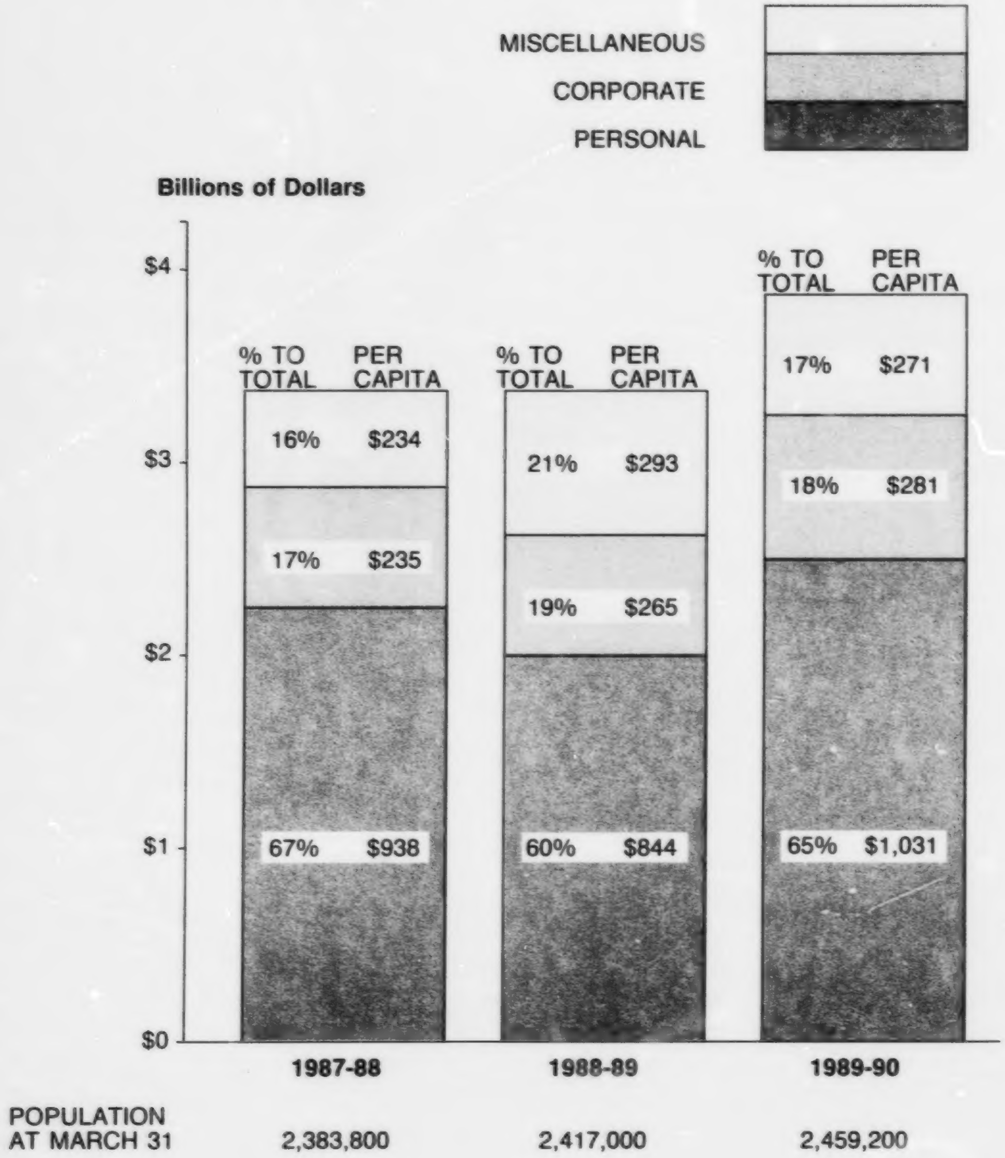


The following chart shows consolidated expenditure by major groups, the percentage of such expenditure to total consolidated expenditure, and expenditure per capita, for the past three years.



	1987-88	1988-89	1989-90
POPULATION AT MARCH 31	2,383,800	2,417,000	2,459,200

The following chart shows the sources of taxes, the percentage of each source to total taxes, and taxes per capita, for the past three years.



Legislative mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the Auditor General Act. The Auditor General is the auditor of all government departments, funds containing public money, and Provincial agencies.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 reports

In section 18 reports I state whether, in my opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1989-90 consolidated financial statements is reproduced on page 119 of this report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 reports

This is the section 19 report for 1989-90. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 20 reports

In reports under section 20, I can report to the Legislative Assembly on any matters of importance or urgency which, in my opinion, should not be delayed until my next annual report.

No reports have been issued under section 20 of the Act since my last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 117 of this report, is to communicate to management recommendations for improving the financial administration of the Province.

Management letters are addressed to the deputy minister or senior executive officer of the audited entity. A copy is sent to the minister responsible for the entity except for health related Provincial agencies referred to in section 2(5) of the Financial Administration Act.

Section 17 reports

Under section 17 of the Auditor General Act, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1989-90 fiscal year, I received no requests from the Legislative Assembly or the Executive Council to perform special duties under section 17.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used repeatedly. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken in 1989-90 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1989-90 have been reported to management.

Standing Committee on Legislative Offices, and the Audit Committee

Reports issued under section 19 of the Auditor General Act are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee are:

Mr. R.J. Bogle, MLA	Chairman
Mr. S.K. Nelson, MLA	Deputy Chairman
Mr. J.W. Ady, MLA	
Mr. J. Drobot, MLA	
Mr. D. Fox, MLA	
Mrs. Y. Gagnon, MLA	
Mr. A.W. Hyland, MLA	
Mr. T. Sigurdson, MLA	
Mr. D. Tannas, MLA	

The Audit Office continues to have a constructive working relationship with the Committee. I meet with the Committee several times during the year. This allows me to keep the Committee informed of the operations of the Office and to answer questions that the Committee may have.

Before being tabled, my annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Mr. W.G. Stephen, FCA Chairman
Partner
Stephen Johnson, Chartered Accountants
Calgary

Mr. W.D. Grace, FCA
Partner
Price Waterhouse, Chartered Accountants
Edmonton

His Honour C.L. Liden
Assistant Chief Judge
Provincial Court of Alberta
Edmonton

Mr. F.R.N. Snell, CA
Partner
Ernst & Young, Chartered Accountants
Calgary

Dr. N.E. Wagner
President
Alberta Natural Gas Company Ltd.
Calgary

Mr. R.B. Young
Vice-President and Director
Melcor Developments Ltd.
Edmonton

The Hon. A.D. Johnston, FCA
Provincial Treasurer of Alberta

I acknowledge the contribution of the Audit Committee.

Mission

My staff and I have developed the following statement to guide the work of the Audit Office:

> **The mission of the Office of the Auditor General of Alberta is to add credibility to the government's financial reporting and to improve the financial administration of the Province.**

Adding credibility

Accountability means the obligation to answer for a responsibility that has been conferred.

Audit activity supports accountability. I believe that my Office has a role to play in assisting others in their accountability relationships. Audits are not a substitute for good accountability, but they can assist the process and maintain confidence in accountability reports.

Each year, the Government of Alberta presents its expenditure budgets (estimates) for debate in the Legislative Assembly. After the estimates have been formally approved by the Legislature, the government is responsible for their implementation. In this way, the Assembly delegates authority to the government to disburse funds for approved purposes, to manage resources in an economic and efficient manner, and to evaluate the effectiveness of the programs involved.

The annual Public Accounts contain information which in part satisfies the responsibility to account to the Legislative Assembly on how the funds and resources were administered. Each set of financial statements included in the Public Accounts reflects the assertions of management as to the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an auditor's report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Public Accounts Committee in its examination of the use and control of public resources.

Improving financial administration

Accounting, reporting, and auditing are all processes connected with accountability. In my view, however, the basic prerequisite of better accountability is better financial administration. For this reason, the Audit Office wants to help the Legislative Assembly, the government and its administrators focus on the control and management issues critical to sound financial administration.

Accordingly, the Audit Office undertakes in-depth examinations of a selection of management control and information systems each year.

The recommendations that arise from this systems auditing, and from financial statement audits, are designed to help management improve internal control, manage and control resources, promote economy and efficiency, and improve reporting. The change brought about by the successful implementation of these recommendations improves the financial administration of the Province.

During the last year, the Audit Office has introduced to members of governing bodies, senior executives and administrators an approach to internal and external reporting on the effectiveness of their organizations. The approach has been developed by the Canadian Comprehensive Auditing Foundation in the belief that most members of governing bodies, including legislators, and public sector managers want better information about effectiveness.

The Foundation has proposed that managers provide information in the form of representations to help governing bodies form judgements about their organizations' effectiveness. It is felt that a management representations approach to reporting effectiveness is only feasible if there are checks and balances. Fundamental among these is the need for independent audit assurance. The Audit Office is supplying information to interested parties to enable them to make informed decisions on whether or not to pursue further the topic of effectiveness reporting.

Accounting principles, auditing standards and audit approach

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting and Auditing Committee of the Institute issues accounting and auditing statements. These statements apply to and guide accounting and auditing in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to produce the fair disclosure of financial information.

The consolidated financial statements of the Province of Alberta and the General Revenue Fund are not prepared in accordance with generally accepted accounting principles. The basis of accounting is explained in a note to the financial statements. The financial statements of most of Alberta's Provincial entities are prepared in accordance with generally accepted accounting principles. In the main, the exceptions relate to the method of accounting for fixed assets.

Auditing standards

The work of the Audit Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants and its Public Sector Accounting and Auditing Committee.

Audit approach

I believe there is a legislative expectation that the work of my Office should extend beyond seeking reportable matters only as a by-product of financial statement auditing. For this reason, annual audits are approached with three main objectives. In addition to the work designed to attest to the fair presentation of financial statements, the following work is undertaken:

- Management control and information systems are examined on a selective basis. The Audit Office attempts to maximize the usefulness of its work by identifying for examination those systems and practices essential to the successful operation of an entity. The purpose of these examinations is to promote improvements in the systems that management uses to achieve the objectives of the enterprise.

- At the beginning of each audit, significant financial and administrative authorities that impact the entity's operations are identified. During the audit, all transactions examined as part of the financial audit are also examined to determine whether or not they comply with the identified authorities.

  Any observed instances of non-compliance with the identified authorities are reported to management and, where appropriate, to the Legislative Assembly.

The scope of the Audit Office's annual audit activity as described above exceeds the minimum requirements of generally accepted auditing standards for financial audits. This enables me to report more usefully to management and, where appropriate, to the Legislative Assembly.

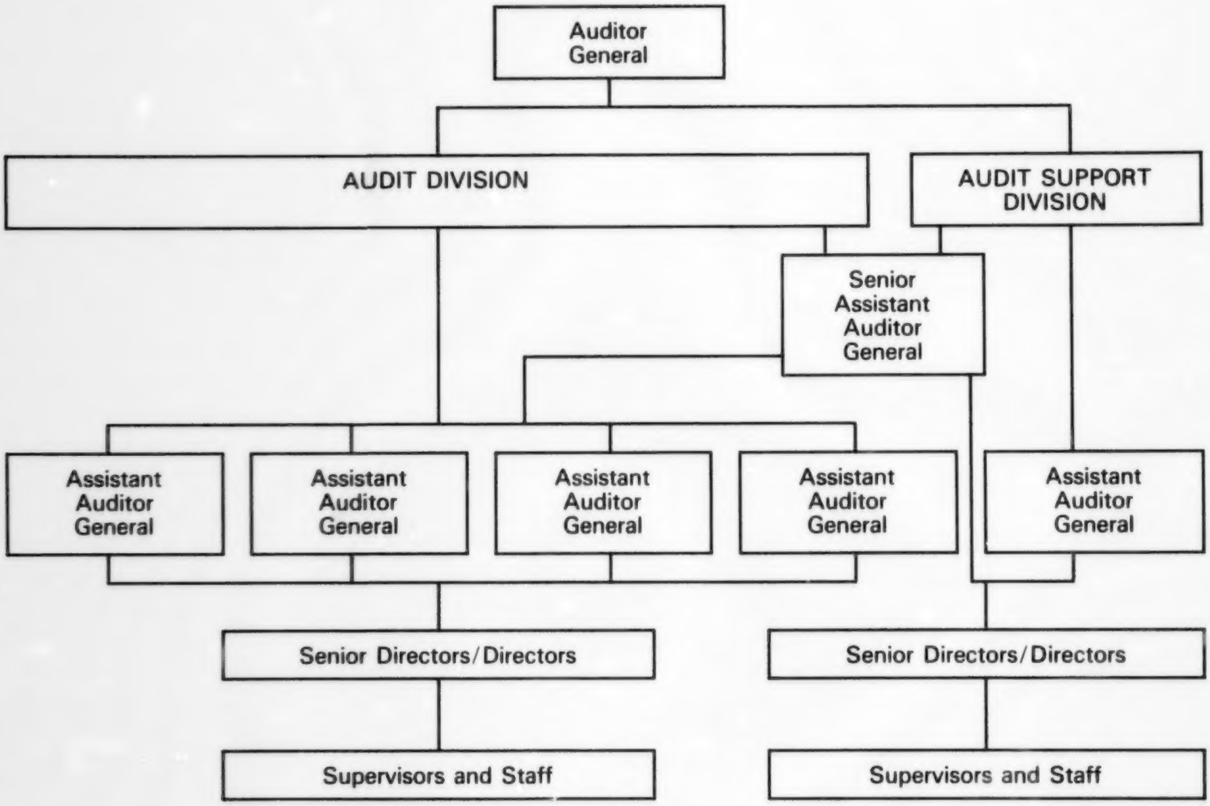
The Audit Office has long recognized the value of the computer as an audit tool. Like most large auditing offices, it makes extensive use of micro computer-based spreadsheets, word processing and other commercial software. In addition, however, it has developed several computer-based aids which assist in improving the efficiency and effectiveness of its audit work.

One such aid is PROBE, a generalized file interrogation system which enables auditors to process data files from virtually any computer system encountered. It operates on the Audit Office's own computer, thereby ensuring security over processing. An important feature of PROBE is that it is interactive and can be used by all auditors after a very short training period. PROBE continues to be an indispensable audit tool for examining computer files and systems.

Another computer-based aid to auditing developed by the Audit Office is its Audit Management System. The system is a comprehensive audit resource management system. It records and reports in a variety of ways the hours and costs budgeted and used on the Office's audits and service functions.

Organization of the Audit Office

The organization of the Audit Office is as follows:


Auditor General
AUDIT DIVISION
AUDIT SUPPORT DIVISION
Senior Assistant Auditor General
Assistant Auditor General
Assistant Auditor General
Assistant Auditor General
Assistant Auditor General
Assistant Auditor General
Senior Directors/Directors
Senior Directors/Directors
Supervisors and Staff
Supervisors and Staff

The Management Committee

The Audit Office is administered by the Management Committee which sets and monitors the achievement of policies designed to discharge the Auditor General's legislatively prescribed responsibilities. The members of the Committee are:

Mr. D.D. Salmon, FCA	Auditor General
Mr. A.J.K. Wingate, CA	Senior Assistant Auditor General
Mr. G.C. Cuthbert, CA	Assistant Auditor General
Mr. J.H. Hug, CA	Assistant Auditor General
Mr. M.G. Morgan, CA	Assistant Auditor General
Mr. D.J. Neufeld, CA	Assistant Auditor General
Mr. N. Shandro, CA	Assistant Auditor General

The Audit Division

The Audit Division is jointly administered by the Senior Assistant Auditor General and four Assistant Auditors General.

Each Assistant Auditor General, with a team of Senior Directors and Directors, is responsible for a portfolio of audits. Senior Directors and Directors are responsible for planning and executing the team's audits, and carry out those responsibilities with the assistance of Audit Supervisors, Audit Seniors and Student Auditors who are professional accountants or are pursuing professional accounting designations.

The Audit Support Division

The Audit Support Division is jointly administered by the Senior Assistant Auditor General and an Assistant Auditor General.

The Audit Support Division provides a variety of administrative and audit-related services to the Audit Division and to the Office. These include co-ordination of human resource management and professional development, accounting and administration, professional practices, legal advice, computer operations and system development, security, and co-ordination of the preparation of the Auditor General's annual reports.

Agents

The Audit Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the Auditor General Act, and their contributions in supplementing the staff resources of the Audit Office are gratefully acknowledged. The use of agents has remained at the level of the prior year, however recent mergers of firms have reduced the number acting as my agent. Agents acting in respect of the fiscal year ended March 31, 1990 were as follows:

Arthur Andersen & Co.
Bevan, Halbert & Ginet
Collins Barrow
Coopers & Lybrand
Cuthbertson Sandall & Partners
Dawson, Berezan & Partners
Deloitte & Touche
Doane Raymond
Ernst & Young
Hudson & Company
Ladell Perry
Matthew Craig Davies
Mills Unrau Gerlock
Pannell Kerr MacGillivray
Peat Marwick Thorne
Price Waterhouse
Young, Parkyn, McNab & Co.
Watkinson, Hanhart, Duda, Dorchak

Audit Office financial statements

The audited financial statements of the Office of the Auditor General are reproduced in section 8 of the Public Accounts of the Province, in accordance with section 30(4) of the Auditor General Act.

INDEX OF ENTITIES

354713 Alberta Ltd. 16
391760 Alberta Ltd. 23
ACCESS Charitable Foundation of Alberta 116
Aetna Irrigation District 115
Alberta Agricultural Development Corporation 44
Alberta Agricultural Research Institute 46
Alberta Alcohol and Drug Abuse Commission 90
Alberta Cancer Board 91
Alberta Cancer Foundation 94
Alberta Capital Fund 23
Alberta Children's Hospital Research Centre 116
Alberta Children's Provincial General Hospital 91
Alberta College of Art 30
Alberta Dairy Control Board 46
Alberta Electric Energy Marketing Agency 109
Alberta Environmental Research Trust 63
Alberta Hail and Crop Insurance Corporation 45
Alberta Heritage Foundation for Medical Research 107
Alberta Heritage Foundation for Medical Research Endowment Fund 23
Alberta Heritage Savings Trust Fund 19
Alberta Heritage Scholarship Fund 23
Alberta Hospital Edmonton 95
Alberta Hospital Edmonton Foundation 94
Alberta Hospital Ponoka 95
Alberta Insurance Council 50
Alberta Intermodal Services Ltd. 53
Alberta Laser Institute 27
Alberta Liquor Control Board 105
Alberta Mortgage and Housing Corporation 97
Alberta Motion Picture Development Corporation 53
Alberta Multicultural Fund 52
Alberta Municipal Financing Corporation 23
Alberta Oil Sands Technology and Research Authority 59
Alberta Opportunity Company 53
Alberta Petroleum Incentives Program Fund 59
Alberta Petroleum Marketing Commission 59
Alberta Planning Fund 101
Alberta Provincial Corporation Loan Fund 23
Alberta Racing Commission 105
Alberta Research Council 109
Alberta Resources Railway Corporation 113
Alberta Risk Management Fund 23
Alberta Special Waste Management Corporation 60
Alberta Sport Council 103
Alberta Telecommunications Research Centre 27
Alberta Terminals Ltd. 46
Alberta Tourism Education Fund 110
Athabasca University 27
Bow River Irrigation District 115
Calgary Area Hospital Advisory Council Fund 95
Canadian Pooled Equities Fund 23
Centre for Frontier Engineering Research Institute 27
Charles Camsell Provincial General Hospital 95

INDEX OF ENTITIES

Charles Camsell Provincial General Hospital Volunteer Association ... 116
Chattel Security Registries Assurance Fund ... 48
Chembiomed Ltd. ... 107
Consolidated Cash Investment Trust Fund ... 23
Consolidated Financial Statements of the Province ... 6
Credit Union Deposit Guarantee Corporation ... 23
Crop Reinsurance Fund of Alberta ... 46
Culture and Multiculturalism Revolving Fund ... 52
Department of Advanced Education ... 26
Department of Agriculture ... 43
Department of Career Development and Employment ... 49
Department of Consumer and Corporate Affairs ... 50
Department of Culture and Multiculturalism ... 51
Department of Economic Development and Trade ... 53
Department of Education ... 54
Department of Energy ... 55
Department of Executive Council ... 64
Department of Family and Social Services ... 69
Department of Federal and Intergovernmental Affairs ... 79
Department of Forestry, Lands and Wildlife ... 80
Department of Health ... 82
Department of Labour ... 96
Department of Municipal Affairs ... 97
Department of Public Works, Supply and Services ... 102
Department of Recreation and Parks ... 103
Department of Technology, Research and Telecommunications ... 106
Department of the Attorney General ... 47
Department of the Environment ... 60
Department of the Solicitor General ... 105
Department of Tourism ... 110
Department of Transportation and Utilities ... 111
Eastern Irrigation District ... 115
Edmonton Area Hospital Advisory Council Fund ... 95
Education Revolving Fund ... 54
Energy Resources Conservation Board ... 57
Environment Council of Alberta ... 61
Fairview College ... 30
Farm Credit Stability Fund ... 23
Fish and Wildlife Trust Fund ... 81
Foothills Hospital Employees' Charity Fund ... 116
Foothills Hospital Foundation ... 116
Foothills Provincial General Hospital ... 92
Forest Development Research Trust Fund ... 81
Forestry, Lands and Wildlife Revolving Fund ... 81
Gainers Inc. ... 15
Gas Alberta Operating Fund ... 114
General Revenue Fund ... 6
Glenbow-Alberta Institute ... 51
Glenrose Rehabilitation Hospital ... 94
Glenrose Rehabilitation Hospital Employee Benevolent Fund ... 116
Glenrose Rehabilitation Hospital Employee Charities Fund ... 116
Grande Prairie Regional College ... 34
Grande Prairie Regional College Foundation ... 116

INDEX OF ENTITIES

Grant MacEwan Community College 31
Health Care Insurance Fund 87
Improvement Districts' Trust Account 101
Irrigation Land Manager 46
Joint Standards Directorate 105
Keyano College 31
Lakeland College 33
Land Purchase Fund 19
Leavitt Irrigation District 115
Legislative Assembly Office 5
Lethbridge Community College 32
Lethbridge Northern Irrigation District 115
Livestock Identification and Brand Inspection Fund 46
Livestock Patrons' Assurance Fund 46
Long-Term Disability Benefit Fund - Bargaining Unit 96
Long-Term Disability Benefit Fund - Management, Opted Out and Excluded 96
Lottery Fund 66
Lottery Operations 64
Macleod Irrigation District 115
Magrath Irrigation District 115
Medicine Hat College 34
Metis Population Betterment Trust Account 100
Metis Settlements Trust Fund 101
Motion Picture Development Fund 53
Motor Vehicle Accident Claims Fund 105
Mount Royal College 34
Mountain View Irrigation District 115
Natural Gas Pricing Agreement Act Fund 59
Natural Gas Rebates Fund 114
North West Trust Company 14
Northern Alberta Children's Hospital 95
Northern Alberta Children's Hospital Foundation 94
Northern Alberta Institute of Technology 35
Northern Steel Inc. 15
Northland School Division No. 61 54
Office of the Auditor General 5
Office of the Chief Electoral Officer 5
Office of the Ombudsman 5
Olds College 34
Olds College Foundation 116
Pension Fund 23
Personnel Administration Office Revolving Fund 96
Provincial Judges and Masters-in-Chambers Pension Fund 23
Public Works, Supply and Services Revolving Fund 102
Raymond Irrigation District 115
Recreation and Parks Revolving Fund 104
Red Deer College 34
Registrar's Assurance Fund 48
Ross Creek Irrigation District 115
Rural Electrification Revolving Fund 113
S C Financial Ltd. 23
S C Properties Ltd. 23
School Foundation Program Fund 54

INDEX OF ENTITIES

Small Business Term Assistance Fund 23
Southern Alberta Institute of Technology 37
Special Areas Trust Account 101
St. Mary River Irrigation District 115
Stray Animals Act Fund 46
Students Finance Board 26
Students Loan Fund 26
Sulphur Development Institute of Canada (SUDIC) 116
Taber Irrigation District 115
Take-or-pay Costs Sharing Fund 59
Teachers' Retirement Fund 54
The Alberta Art Foundation 52
The Alberta Educational Communications Corporation 109
The Alberta Foundation for the Literary Arts 52
The Alberta Foundation for the Performing Arts 51
The Alberta General Insurance Company 47
The Alberta Government Telephones Commission 108
The Alberta Government Telephones Employees' Group Life Insurance Trust Account 109
The Alberta Government Telephones Employees' Pension and Death Benefit Fund 108
The Alberta Historical Resources Foundation 52
The Alberta Microelectronic Centre 27
The Alta Telecom International Employees' Group Life Insurance Trust Account 109
The Alta Telecom International Employees' Pension and Death Benefit Fund 109
The Arctic Institute of North America 28
The Banff Centre for Continuing Education 29
The Friends of University Hospitals 116
The Government House Foundation 52
The Horned Cattle Purchases Act Trust Account 46
The Recreation, Parks and Wildlife Foundation 104
The Trustees of the Academic Staff Benefits Plans of The University of Alberta 116
The University of Alberta 27
The University of Calgary 28
The University of Lethbridge 28
The Wild Rose Foundation 66
The Workers' Compensation Board 67
Tourism Education Fund 110
Transportation Revolving Fund 114
Treasury Branches Deposits Fund 20
Treasury Department 16
Treasury Revolving Fund 23
Trust Funds - various 23
United Irrigation District 115
University Hospitals Board 94
University Hospitals Foundation 94
University of Alberta Hospitals Staff Benevolent Fund 116
University of Alberta Hospitals Staff Charities Fund 116
University Technologies International, Inc. 28
Utility Companies Income Tax Rebates Fund 23
Water Resources Revolving Fund 61
Western Irrigation District 115
Westerra Institute of Technology 42

AUDITOR GENERAL ACT

CHAPTER A-49

Table of Contents

Definitions 1
Meaning of other words 2
Appointment of Auditor General 3
Resignation of Auditor General 4
Suspension or removal from office 5
Vacancy in office 6
Salary and benefits 7
Acting Auditor General 8
Office of the Auditor General 9
Engagement of services on fee basis 10
Delegation of power or duty 11
Auditor General as auditor 12
Financing of operations 13
Auditor General may charge fees 14
Access to information 15
Right to information 16
Special duties of Auditor General 17
Annual report on financial statements 18
Annual report of Auditor General 19
Special reports 20
Establishment of Audit Committee 21
Meetings of Audit Committee 22
Information re scope and results of audit 23
Availability of reports 24
When report not required 25
Supplementary information 26
Audit working papers 27
Report after examination 28
Advice on organization, systems, etc. 29
Annual audit 30

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) "Crown-controlled organization" means

(i) a corporation that is incorporated by or under an Act of the Legislature, other than a local or private Act, one or more but less than a majority of whose members or directors are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof, or

(ii) an unincorporated board, commission, council or other body that is not a department or part of a department, one or more but less than a majority of whose members are appointed or designated, either by their personal names or by their names of office, by an Act of the Legislature or regulations under an Act of the Legislature, by an order of the Lieutenant Governor in Council or of a Minister of the Crown or by any combination thereof,

that is responsible for the administration of public money or assets owned by the Crown, and includes a corporation, more than 50% but less than 100% of whose issued voting shares are owned by the Crown or held in trust for the Crown or are partly owned by the Crown and partly held in trust for the Crown;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman, and

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money forming part of the Treasury Branches Deposits Fund;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act* and includes the Treasury Branches Deposits Fund;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under the *Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) The *Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles, and as to whether they are on a basis consistent with that of the preceding fiscal year,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

1977 c56 s18

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) The annual report shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

1977 c56 s19

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30